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**INTERNATIONAL CHANNEL PARTNER MOTIVATION**  
**The Case of a Finnish Software Company**

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## **INTERNATIONAL CHANNEL PARTNER MOTIVATION**

### **The case of a Finnish software company**

#### **The background and the objectives of the study**

The global software industry offers great growth potential for Finnish software companies. Many Finnish companies may, however, lack resources to serve global markets through own direct marketing channels and must, therefore, rely on international channel partners for effective performance of marketing functions. The ability of Finnish suppliers to exert control in their international channels can, nevertheless, be limited, which highlights the importance of effective channel partner motivation. The aim of this study is to improve our understanding of how Finnish software suppliers could more effectively motivate their international channel partners to sell and promote their products and services. Even though channel relationships in general have been covered quite extensively in the marketing literature, research concerning international channel relationships in the software industry from the viewpoint of partner motivation is currently more limited.

#### **Methodology**

The study aims at identifying the critical issues in international channel partner motivation from the perspectives of the supplier, the channel partner and the marketing environment. First, a preliminary theoretical framework is developed based on marketing channels literature, principal-agent theory and relationship marketing theory. Secondly, empirical evidence is acquired in the form of a single case study in the Finnish software industry. The case analysis is based on interviews and written material from the case company, Stonesoft. In addition, a channel partner survey is conducted among Stonesoft's channel partners. Finally, the findings from the case study and the partner survey are analysed in the light of the preliminary theoretical framework and a modified model of international channel partner motivation in the software industry can be presented.

#### **The findings of the study**

The framework of international channel partner motivation in the software industry suggests that a channel program has a critical role in motivation. The program should meet the needs and the goals of the supplier, as well as its channel partners. The most important needs of the partners can be characterized in terms of competitive products and services, committed and trustworthy relationship, effective and sufficient communication, ability to make proper profits, sufficient support from the supplier and functioning and fair distribution policies. The supplier, in turn, has to consider how the industry area and the characteristics of its company and product influence its channel motivation program. In addition, the marketing environment, for instance the culture of the partner's country, must be considered, which may be done the best at the level of local subsidiaries that are the most familiar with the local circumstances.

**Keywords:** software industry, motivation, channel partner, channel program



## KANSAINVÄLISTEN KANAVAKUMPPANEIDEN MOTIVOINTI

### Tapaustutkimus suomalaisesta ohjelmistoyrityksestä

#### Tutkimuksen tausta ja tavoitteet

Suomalaisilla ohjelmistoyrityksillä on maailmanlaajuisten ohjelmistomarkkinoiden myötä mahdollisuus merkittävään kasvuun ja kansainväliseen menestykseen. Monet suomalaiset ohjelmistoyritykset joutuvat kuitenkin omien resurssien vähäisyyden johdosta turvautumaan ulkomaisiin jakelukanaviin, joiden kontrollointi voi osoittautua pienelle yritykselle haasteelliseksi. Kanavakumppaneilla on tärkeä rooli omien tavoitteiden saavuttamisessa, joten avainasemaan nousee kanavan oikeanlainen motivointi. Tutkielman tavoitteena on saada selville, kuinka suomalaiset ohjelmistoyritykset voisivat paremmin motivoida ulkomaisia kanavakumppaneitaan myymään ja markkinoimaan omia tuotteitaan. Vaikka kanavasuhteita on yleisesti tutkittu aika laajastikin, on kanavapartnerisuhteet ohjelmistotalalla, varsinkin motivaation näkökulmasta, kuitenkin vielä suhteellisen tutkimaton alue.

#### Tutkimusmenetelmät

Tutkielma pohjautuu kirjallisuusanalyysiin sekä empiiriseen tutkimukseen. Tutkielman teoreettinen viitekehikko perustuu markkinointikanavakirjallisuuteen, päämies-agentti teoriaan sekä kirjallisuuteen suhdemarkkinoinnin alalta, ja se kuvaa tärkeimpiä huomioonotettavia asioita kanavapartnereiden motivoinnissa ohjelmiston toimittajan, kanavakumppanin ja markkinointiympäristön kannalta. Tietämystä kanavapartnereiden motivoinnista pyritään edelleen laajentamaan tapaustutkimuksella, jonka tarkoituksena on tutkia suomalaisen ohjelmistoyrityksen, Stonesoftin, kanavasuhteita ja kanavaohjelmaa motivoinnin näkökulmasta. Tutkimusaineisto sisältää lähinnä haastatteluja ja kirjallista materiaalia yrityksestä. Empiirinen aineisto käsittää lisäksi kysely- ja haastattelututkimuksen Stonesoftin kanavakumppaneiden keskuudessa. Lopulta tapaustutkimuksen ja kumppanikyselyn tuloksia verrataan teoreettiseen viitekehikkoon, jonka jälkeen voidaan esittää muokattu malli koskien kansainvälisten kanavakumppaneiden motivointia ohjelmistotalalla.

#### Johtopäätökset

Tutkimuksen perusteella voidaan todeta, että kanavaohjelmalla on tärkeä rooli kansainvälisten kanavakumppaneiden motivoinnissa. Ohjelman tulee huomioida niin ohjelmiston toimittajan, ympäristön kuin kanavakumppaneidenkin asettamat vaatimukset. Kanavakumppaneiden motivaation kannalta tärkeässä asemassa ovat kilpailukykyiset tuotteet ja palvelut sekä riittävät voittomarginaalit. Myös luottamuksellinen ja sitoutunut kumppanuussuhde, molemminpuolinen kommunikaatio, erilaiset toimittajan tarjoamat tukiratkaisut, sekä toimiva jakelukanavapolitiikka ovat kumppaneille tärkeitä. Toimittajan tulee puolestaan huomioida toimialan sekä oman yrityksensä, kanavarakenteensa ja tuotteidensa vaikutukset motivointitoimenpiteiden suunnitteluun. Markkinointiympäristö, esimerkiksi eri maiden kulttuuritekijät, voidaan huomioida parhaiten kanavaohjelman toteutusvaiheessa, jossa toimittajan paikallisilla organisaatioilla on usein tärkeä rooli sekä asianmukaisin tieto käytettävissään.

**Avainsanat:** ohjelmistoteollisuus, motivaatio, kanavakumppani, kanavaohjelma



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# **1 INTRODUCTION**

## **1.1 Background of the Study**

Software industry is among the most rapidly growing industrial sectors in the world. It is also a fiercely competed industry area and undergoing continuous change. The levels of innovation and technological development are higher in the software sector than in traditional manufacturing industries, which makes the sector a highly attractive, but also a very complex business area. (Tekes 15/2003; Rajala et al. 2001, Toivanen 2000)

The software industry is also one of Finland's most important new industrial sectors. Young, internationally active companies are springing up in the field and the industry is growing rapidly (Rajala et al. 2001). Nevertheless, the share of Finnish companies from the global software market is still relatively low; thus the opportunities for Finnish software companies to grow internationally remain substantial. (Toivanen 2000, Nukari & Forsell 1999)

Succeeding in the tough global competition requires great effort and capabilities on several different areas. Besides good products and product development, strong emphasis on marketing, partnerships and networking are, for instance, required. (Tekes 15/2003, Nukari & Forsell 1999) This has not, however, been the strongest side for Finnish software suppliers, who have traditionally relied on technology development as their central area of interest (Alajoutsijärvi et al. 2000). International sales and marketing, networking and cooperation with other software vendors remain still as some of the main challenges for Finnish software companies (Tekes 15/2003).

Due to the globalization of the economy, also marketing channels of software companies exist in a very competitive environment. Competition among companies has intensified, which has heightened the importance of distribution in a firm's overall strategy. Therefore, delivering the product or service to the final customer faster and more efficiently than the competition has become a critical success factor. (Mehta et al. 2003, 50)

Managing international marketing channels effectively is also an important success factor for Finnish software companies (Nukari & Forsell 1999). Marketing channel members are in a significant role in determining the results of companies, as one of the keys to international marketing success is gaining access to foreign channels of



distribution and building effective relationships with foreign intermediaries (Tekes 15/2003). Marketing channel members are often the only connection between the software supplier and the end customer, and the channel middlemen can normally choose between competing software suppliers, whose products to actively sell and promote to their own customers. Thus, the resource allocation decisions of marketing channel members are made in the context of many competing software vendors. Therefore, it is important that suppliers are able to effectively motivate channel members to market and promote their products and services.

## **1.2 Research Problem and Gap**

In the current global competitive environment, the motivation of international channel partners to achieve individual and collective goals has, thus, become increasingly important. Securing the channel member's motivation is, however, a difficult task, because distributors and resellers are independent businesses and their policies, procedures and goals may be very different from those of their supplier partners. The ability to exert power over the channel has generally decreased (Goodman & Dion 2001), thus, the need to understand how the motivation of channel members is created and maintained has become more and more important.

The motivation of international channel partners is even a greater challenge for Finnish software companies, who often have to create global presence from the beginning of their operations to compete successfully against large multinational software companies. The Finnish companies may, however, lack adequate financial and managerial resources to serve global markets through own direct channels, and must, therefore, rely on international channel partners for the efficient and effective performance of marketing functions. (Luostarinen & Gabrielsson, 2004) Their foreign channel partners can be multinational companies operating in several different countries and, therefore, the ability of the Finnish software vendors to exert control in the marketing channel can be very limited. Additionally, the long distance from the main markets makes it even more difficult for the Finnish companies to control the channel effectively. Nevertheless, successful management of channel relationships and effective channel partner motivation can be an important source of competitive advantage (Weitz & Jap, 1995).



**The research problem** of this study is, therefore: *how can Finnish software suppliers more effectively motivate their international channel partners to sell and promote their products and services.* The study aims at improving our understanding of the critical issues in channel relations of Finnish software vendors, particularly from the viewpoint of partner motivation.

An additional incentive to study channel partner motivation in the software industry results from the fact that there are some areas in channel research that have not been covered so broadly yet. Even though channel relationships in general have been explored quite extensively in the marketing literature, there seems to be very little empirical research available on channel relationships (Weitz & Jap 1995), particularly from the viewpoint of partner motivation (Mehta et al. 2003). According to Anderson et al. (1987), a limited amount of research exists on the ways suppliers try to influence their channel members to put more efforts and resources on their products and services. Shipley et al. (1989) have noticed also that there are only a few empirical studies conducted on how exporters create, develop and sustain effective and profitable relationships with foreign distributors. Additionally, according to Tekes (The National Technology Agency), research on software business is a new area in the Finnish academic field. Therefore, it seems appropriate to conclude that **a research gap** exists concerning *the motivation of international channel partners of software companies*, which the study at hand aims at narrowing.

### **1.3 Research Question and Objectives**

In the light of the research problem and the gap described above, the main **research question** of the paper is: *What are the critical issues that a Finnish software vendor has to take into account when trying to create and maintain the motivation of its international channel partners.*

It is clear that the channel partners of software vendors should somehow benefit from selling the supplier's products and service. These benefits are often communicated to the channel in the form of a channel program provided by the supplier. Channel programs usually include different support mechanisms, such as training, promotional funding and access to marketing materials, but also some restrictions concerning, for example, sales territories. The channel programs seem to, therefore, play an important role in partners' motivation and should, consequently, be dealt with in this study. An



important aim of this research is, thus, to take a closer look at the channel programs of software vendors.

The study at hand aims at providing a broad picture of the different issues that should be taken into account, when building motivation programs to international channel partners. To analyze channel partner motivation and the role of channel programs in a more holistic way, both the software vendor's, as well as the channel partners' perspectives should be included. It can be assumed that some differences exist between the perceptions of the parties about motivation in the channel context. On one hand, the channel members may strongly emphasize issues such as profit margins, fast delivery and long credit terms as important motivators, whereas the vendor, that is, the software developer and the brand owner, on the other hand, may have to consider its own resources available for motivation or how to ensure the technical competence of the partner's sales force, for example. Therefore, when building motivation programs the needs and the goals of both parties to the relationship should be considered. Additionally, some environmental factors may exist, which can also influence the need for motivation and the availability and effectiveness of different motivation tactics.

The objectives of this study are, therefore, divided into the following subobjectives:

1. To develop a conceptual theoretical framework based on literature, which identifies the important issues concerning channel partner motivation from the perspectives of the channel member, the software supplier and the marketing environment
2. To analyze the software vendor's standpoint on channel partner motivation and channel programs through empirical data collected in a case company
3. To explore further the critical issues in motivation from the channel partners' point of view through a partner survey conducted among channel partners of the case company
4. To identify the influence of different environmental factors on motivation
5. To present a further modified framework of the critical issues in the motivation of international channel partners in the software industry based on the empirical evidence



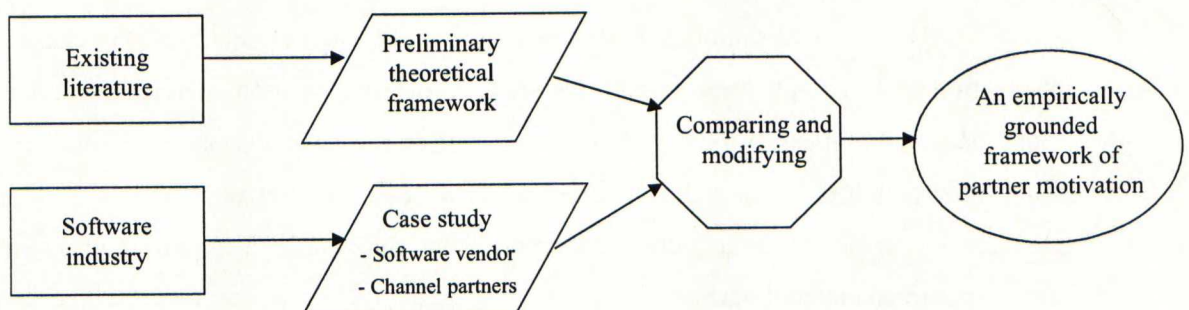
## 1.4 Research Design

The study at hand is based on existing marketing literature and empirical evidence acquired from a case study and a channel partner survey. The aim of the literature review is to identify different issues from the academic literature that are relevant when discussing the motivation of international channel partners. A preliminary theoretical framework is developed, which builds mainly upon general marketing channels literature, the agency theory and aspects from the relationship marketing theory.

The analysis of channel partner motivation is further widened in the empirical part of the research by studying the channel motivation practices of a Finnish software company, Stonesoft. The goal of the case analysis is to find out how the case company motivates its channel partners and what kinds of issues has the company taken into account in its channel program. The channel partner survey, on the other hand, aims at finding out how do the channel partners of Stonesoft perceive its channel program. As the channel partners are different types of companies from different countries, possible differences in their preferences can also be identified.

Finally, the findings from the case company and the partner survey can be compared with the preliminary theoretical framework of channel partner motivation, after which the model can be modified, if needed. Thus, based on literature and empirical evidence, a framework of critical issues in creating and maintaining the motivation of international channel partners of software companies can be developed, as illustrated in the following figure:

*Figure 1: The Research Design*



This research approach is supported by many authors (e.g. Hartley 1994; Eisenhardt 1989b and Yin 2003), who have stated that even in case studies, where the initial focus

may be broad and open-ended, some initial theoretical framework is needed to structure the study.

### **1.5 Scope and Limitations**

The purpose of the study is, thus, to explore the area of channel motivation in the context of software industry. The focus is, however, on one industry area only, which limits the extent to which the findings of the study can be generalized to concern other industries. The decision to concentrate on the software sector results mainly from the interests of the researcher on the area of business, as well as from the fact that channel relations and motivation has not been studied in this context very extensively yet.

The research is qualitative in nature and the case study material is collected from a single case company only, which means that there are further restrictions to the extent that the results of this study can be generalized, even in the context of software industry. The research applies, however, a dyadic approach, which means that the views of both parties of the channel relationship, the vendor and the marketing channel member, are taken into account. Therefore, a multiple case study involving several software vendors and their channel partners would have been out of the scope of a Master's Thesis research project. Despite the limitations, some of the aspects dealt with in this study can, anyhow, be useful for other software companies facing similar conditions, who are interested in developing their channel relationships further.

Additionally, the study a hand focuses on marketing channel members of software companies only to the extent that the same members that perform the sales activities perform also the promotional activities. Therefore, for example advertising agencies are not included in this study.

All in all, the idea of this study is to explore some of the most critical issues in channel motivation and channel programs of software companies in more detail, and not to build an all-encompassing theory about motivation in the channel contexts. The paper aims merely at highlighting the different aspects of motivation management, which may have to be taken into account when creating and maintaining motivation programs for international channel partners.



## **1.6 Structure of the Study**

The paper is divided into two major parts: theoretical framework and empirical analysis.

The next chapter of the paper starts to build the theoretical foundation for the study by discussing the different literature areas that are considered relevant for the software companies' efforts to motivate their international channel partners. Motivation is dealt with in the light of marketing channel literature, agency theory and relationship marketing theory. Based on the literature reviewed, a preliminary theoretical framework can be presented.

The methodology of the research is discussed in further detail in Chapter 3, after which the case study and the partner survey, starting from Chapter 4, are introduced. The characteristics of the software industry, the case company and its channel motivation practices are discussed, after which the channel partner survey among the channel partners of Stonesoft is introduced.

Chapter 5 compares the findings of the empirical analysis with the preliminary theoretical framework, and a modified model of channel partner motivation in the software industry is presented. Finally, conclusions and summary are made and theoretical contributions, managerial implications, as well as limitations of the study and suggestions for further research are discussed.



## 2 THEORETICAL FRAMEWORK

There are several different streams of research in the academic literature that can be applied when discussing the critical issues in motivating and coordinating international channel partners of software companies. This paper has chosen to apply the marketing channels literature, agency theory and relationship marketing theory as the basis for the preliminary theoretical framework. A brief review of the chapter is provided first.

As the research at hand focuses on the software sector, which can be characterized as a very global industry, some literature dealing with the challenges of globalization is discussed. Many Finnish software companies face a need for rapid globalization, meaning that they have to establish presence in global markets fast, but their resources to set up own marketing channel networks are often limited. (Luostarinen & Gabrielsson, 2004) Therefore, these companies have to rely on foreign indirect marketing channels to provide the necessary channel functions, which means that motivation of marketing channels becomes very important, but also quite challenging.

Next, some aspects related to international marketing channel strategy are discussed. The general marketing channels literature provides, first of all, the basis for understanding the fundamental concepts related to managing marketing channels. Channel strategy involves two interrelated parts, namely the channel design and the actual channel management (see e.g. Mallen 1977 and Rosenbloom 1999). Channel design plays an important part in channel strategy decisions, and therefore, despite the fact that the paper focuses on channel management, issues such as channel structure and the roles of different channel members are discussed.

Channel motivation is one of the most critical parts of channel management. Motivation of marketing channel partners is to some extent dealt with in the marketing channel literature. For example Mallen, (1977), Hardy & Magrath (1988), Rosenbloom (1999) and Pelton et al. (2002) have discussed the motivation process and some of the most important ways to motivate and support channel partners to more aggressively sell and promote a supplier's products and services.

However, as it was stated in the introduction, the research dealing with channel partners' motivation is to some extent limited. Therefore, motivation is also considered



from two other theoretical approaches, namely the agency theory and the relationship marketing theory

Based on the literature reviewed, the different motivation methods available can be summarized. Not all partners can, however, be motivated by using the same methods. Different partners have different needs, which should be taken into account when designing support programs.

Therefore, it should be recognized that some factors exist that may strongly influence the channel decisions of suppliers. These factors can roughly be divided into supplier related issues, such as the industry in which it operates, the characteristics of the supplier company and the product of the supplier. Then again, there are also some environmental factors that may influence the motivation of channel partners, for example, the culture of the channel partner's home country. These influencing factors will also be discussed to gain a more holistic picture from the field of channel partner motivation.

The aim of this chapter is to provide a theoretical framework to support the present research. The critical issues in motivating international channel partners will be considered basically from three different perspectives: the requirements and needs of the supplier, the channel partner and the marketing environment.

## **2.1 The Challenges of Globalization**

During the recent years, the role of small and medium sized companies (SMEs), particularly operating in the high technology sector, has grown substantially in the Finnish economy. The Finnish companies have become increasingly internationalized and even globalized, and contributed to the creation and utilization of new technologies. (Luostarinen et al. 1994, 11-12) These companies concentrate often on such product segments that they have to create a global presence very early on to be able to compete against larger multinational companies. The companies, often referred as born globals, have to, thus, globalize their operations instantly, particularly if they come from small and open economies (SMOPECs). However, due to their small size, born globals lack often resources to build global strategies. Therefore, the challenges for these companies are different than for larger multinational companies. (Luostarinen & Gabrielsson 2004)



A global company is normally defined as a company generating 50 % or more of its sales from markets outside its domestic continent (Luostarinen, 2000). For a born global, lower share of sales outside its home continent is accepted (Luostarinen & Gabrielsson, 2004). Thus, a born global company gains at least 20-30 % of its revenues outside its home continent and above 80% outside its home market within a time period of 10 years. Additionally, a company possesses a strategic intent to become a global player from the outset. Born globals are usually high-tech, high design, high quality service, high quality system or high know-how companies. The role of these organizations is nowadays an increasingly important phenomenon in the field of international business research. (Sankari 2002, 10; Luostarinen & Gabrielsson 2004)

Born globals are, thus, often technology-oriented companies operating in international markets from the early days of their establishment. They view global markets as one big entity and tend to be small companies possessing cutting-edge technologies enabling the creation of unique products, which add value to customers. (Knight & Cavusgil 1996, 12) Other characteristics of born globals include entrepreneurship, innovative products or services, technological innovation ability, limited resources and strong networks. The focus of these companies is often not on size, since global forces, such as the development of information technology and liberalization of markets, have made possible for smaller companies to compete successfully against large players. (Oviatt & McDougall 1994)

According to Rennie (1993, 49), the underlying factors behind the born global phenomena include changes in customer preferences, manufacturing and information technology, as well as in competitive conditions. Instead of standard products, specialized and customized niche products are demanded. In innovative products, quality and value, which can be created through innovative technology and product design, are the key success factors. Born globals have been better able to respond to these shifts in customer demand, because they can adapt more quickly to changing market conditions than the more hierarchical multinationals.

According to Luostarinen et al. (1994, 14), in small and open economies the domestic push factors, the openness, the smallness and the peripheral location of the country, have traditionally had the most powerful effect on globalization. The foreign pull factors, the openness and the largeness of the markets, have, in turn, played a smaller



role. Nevertheless, for companies offering unique, globally adaptable products, such as software, the foreign pull forces can be assumed to be stronger than the domestic push factors.

Finland is a small and open economy and, therefore, the factors contributing to the globalization pressures are several, particularly for high tech companies. The traditional push factors: smallness, openness and peripheral location, are strong. A further push factor results in the limited resources of born global companies. Born globals often lack financial and human resources and they, therefore, need to look for cooperation outside their home borders.

Additionally, particularly in high technology industries, economies of scale and global volumes are needed to cover the increasing R&D expenditures due to shortening product life-cycles, which forces companies to search for larger markets and new partners. (Luostarinen 1979, 90; Alahuhta 1990, 17) Also some characteristics of the software product, for example high R&D, but low reproducing costs, result in the fact that once the software is written, it can be copied and used instantly in many countries with insignificant additional costs, which has led to the rapid globalization of the software industry (Oviatt & McDougall, 1994, 56).

The globalization factors mentioned above are relevant also for many Finnish software companies. The market for software in Finland is limited, and companies have to go global to compete successfully against larger multinational competitors on international markets. The rapid globalization can, however, result in challenges, for instance, for the marketing channel strategies of software companies. As stated, the pressures to become global are strong, but resources can, however, be limited, and the possibility for setting up fully own direct marketing channel networks does not usually exist. This forces companies to rely on foreign indirect marketing channels, which limits the company's ability to exert control in the channel, which would, however, be needed due to growth expectations, for example. (Luostarinen & Gabrielsson, 2004) In this context, the motivation of marketing channels is extremely important in order for the software company to be able to achieve its objectives on the market.

The next section discusses in more detail the channel decisions that need to be considered in the context of motivating international channel partners.



## **2.2 International Marketing Channel Strategy**

A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption. Marketing channels do not only satisfy demand by supplying goods and services at the right place, quantity, quality and price, but they also stimulate demand through promotional activities. (Stern et al. 1996, 1-2) The term marketing channel is in this study used interchangeably with the terms distribution channel and sales channel, even though the latter concepts can also be defined more narrowly including only the sales functions and, thus, excluding the promotional activities.

The existence of intermediaries in marketing channels can be explained, according to Stern et al. (1996, 3) in terms of four issues: 1) intermediaries can improve the efficiency of the economic process 2) they adjust the discrepancy of assortment through the performance of the sorting processes 3) they provide for the routinization of transactions and, finally, 4) channels facilitate the searching process. In international markets, a strong intermediary network can be the only way to sell and service products (Hardy & Magrath 1988, 10).

International marketing channel strategy refers to broad principles by which the company expects to achieve its distribution objectives for its target markets. Decisions have to be made concerning, for example, channel structure, channel members and the actual channel management and evaluation. (Rosenbloom 1999, 164) An effective channel strategy can provide access to markets, opportunities to gain market shares, cost efficiencies, high customer service levels and the ability to launch new products (Hardy & Magrath 1988, 28). The channel strategy can also offer great potential for competitive advantage that is hard to imitate by competitors, because channel strategy is long-term, it requires a structure and it is based on relationships and people (Rosenbloom 1999, 5).

Channel strategy is, thus, a way to achieve distribution objectives, such as coverage of target markets, service level, image and implementation of programs. The achievement of objectives, then again, involves both the design and the management of the distribution channel. (Hardy & Magrath 1988, 164)

According to Hardy and Magrath (1988), the main decisions in channel design include choosing the number of levels in the channel, the type and the number of middlemen at



each level, and the number of channels. The channel management, then again, involves first of all a strategic decision about using push or pull strategies in the channel. A push strategy involves designing programs that load middlemen with products hoping that they will try harder to sell them. Pulling strategy, then again, requires a company to develop supports to assist the channel in reaching and sustaining end customer orders. The development and the administration of channel support programs is, however, the main tactical aspect of the ongoing management of the channel. Hardy & Magrath (1988, 164) state that the channel support programs are, in fact, the key in motivating and controlling the channel middlemen.

Mallen (1977) uses a slightly different channel strategy terminology, when arguing that channel management consists of two parts: channel structure and channel relations. The first deals with the design of a company's distribution channel and the creation, selection or ownership of appropriate channel middlemen. The second, channel relations, is concerned with the working relationship and interorganizational behavior of the principal firm and its channel members. The two parts of channel management are, however, highly interrelated. (Mallen 1977, 69)

Mallen (1977) sees the channel management task as a multistage process. The inputs to the process are firstly the major objectives of profit and motivation maximization. Profit maximization is achieved by maximizing sales and minimizing costs, whereas motivation maximization requires maximizing goodwill and control in the channel. Together, channel goodwill and channel control can motivate channel members to perform in the best interest of the channel principal. Channel goodwill refers to the attitudes and cooperative feeling that the middlemen have toward the manufacturer, and it determines whether the middlemen will cooperate, work along with and push the manufacturer's products in relation to other products they are carrying. Channel control, in turn, refers to the ability of the manufacturer to see that the marketing policies and practices are carried out at all levels of the distribution system. (Mallen 1977, 79)

Besides the major objectives described above, Mallen (1977, 167) also emphasizes the role of different influencing factors on channel decisions. The influencing factors include the distribution structure, the market, the environment, the resources and the marketing mix, and they dictate the feasible channel decision alternatives available. Also other authors have discussed factors that may influence channel strategies of



companies. Corey et al. (1989, 39) argue that channel patterns are shaped by the nature of the product, market segment demographics, buyer behavior and distribution costs. Rosenbloom (1999, 212), on the other hand, differentiates between market, product, company, intermediary, environmental and behavioral variables affecting the choice of different channel strategies.

Channel strategy decisions are basically very similar both in domestic and international environments. The design issues, as well as issues related to the management and the motivation of channels remain, thus, to a large extent the same. In international markets, the supplier company is, however, faced with more unknowns and greater complexity. The environmental factors that influence the channel decisions need more attention. Also, the manufacturer's ability to exercise control is more limited in international settings due to greater distances and, for example, cultural and communicational differences involved when dealing with foreign channel members. Thus, the motivation of the channel is very important in international settings, but also more difficult due to different environments. (Rosenbloom 1999, 527-539)

To sum up the discussion on channel strategy, it can be concluded that it is a process in which both the design of the channel, and the management of channel relations, are important and interrelated. Therefore, both parts have to be considered, also when the main focus is on channel motivation. Besides the design and the management of the channel, it was noticed that there are also a set of factors that may strongly influence channel strategy decisions, such as product, company and environmental variables. Therefore, these factors should also be taken into account when discussing the motivation management of channel partners.

Thus, even though the main topic of this research, motivation, is as such a part of the channel management function (Rosenbloom, 1999), the design of the channel, as well as the factors that influence channel decisions, will be discussed. As Mallen (1977, 246) states: "Good channel relations start with good channel design". For that reason, issues relating to the channel design are discussed next.

### **2.3 International Channel Design**

Marketing channel design refers to decisions involved in the development of new sales channels or in the modification of existing channels. There are several situations that may require channel design; for example a new product, a new target market, changes



in environmental factors or channel conflicts. (Rosenbloom 1999, 200-201) Channel design includes decisions concerning channel members, channel structure, and the division of tasks within the channel.

### *2.3.1 Channel Members and the Division of Tasks*

In terms of different marketing channel members, the literature makes generally a distinction between wholesale and retail intermediaries. Wholesaling involves normally the buying and handling of merchandise and its subsequent resale to organizational users, retailers and or other wholesalers, but not to final consumers. Retailing, in turn, consists of those business activities involved in the sale of goods and services to final use. (Berman 1996, 8) Definitions of intermediary types vary, however, greatly from industry to industry (Gabrielsson et al. 2002, 77). Definitions used in this study are specific to the software industry.

McHugh (1999) has classified the channel partners in the software business into agents, resellers, dealers, distributors, republishers, and retail outlets. Agents are typically individuals who operate solely on commission, and usually low value software is being sold through agents. Resellers are commonly used to gain market access and to build profitable customer base in medium value applications. Resellers act often as Value Added Resellers (VAR), as their role includes selling related services or system components in addition to the core software product. Resellers are frequently used to handle implementation activities and they are also used often as a route to overseas markets. Dealers, again, are very similar to resellers, but do not normally add value to the software sale. Distributors in software business are usually companies that sell large volumes of products, either to end users via direct means, such as catalogue or website, or through a secondary tier including a network of dealers or resellers. Literally, distributors are not order makers but order takers. Their role is, therefore, severely limited to being a fulfillment channel, relying on the vendor to address the many other tasks required in generating customers. Republishers are hybrid forms of Original Equipment Manufacturers (OEM) and resellers, whereas retail outlets are used for accessing mass markets in particular by vendors seeking to target the small office or consumer market. (McHugh 1999, 93-96)

To avoid many different channel member definitions, the channel intermediaries of software vendors are in this study roughly divided into distributors and resellers. As



mentioned, distributors do not usually sell directly to end customers, but use resellers as middlemen. Resellers, then again, sell the products and services to end customers.

In order for products and services to move from makers to users, they must, for example, be handled, packaged, assembled, stored, shipped, displayed, sold and serviced (Hardy & Magrath 1988, 3). Thus, a number of different tasks or functions exist that marketing channel members should perform. The functions vary in different contexts, but normally they include at least selling, channels support, physical distribution, product modification, after-sale service and risk assumption. Selling involves, for example, demand generation at the end customer levels by means of sales calls, advertising, promotion, trade shows, direct mail and telephone marketing. Also negotiating about prices and terms is included in the selling function. Channels support can involve tasks such as product and sales training, performance monitoring, recruiting resellers, motivating resellers and other functions essential for demand fulfillment. Physical distribution, on the other hand, refers to, for example, order processing, warehousing and delivery of goods and services. Product modification and maintenance include product customization, packaging according to user's instructions and service support, whereas risk assumption refers to inventory carrying costs, customer credit, product liability and dedicated resources, for example. (Corey et al. 1989, 32-33)

These functions may each be performed at one or more points in the marketing channel. Channel support is typically provided through the supplier's sales organization, but it could be delegated to, for example, distributors. (Corey et al. 1989, 33) According to Berman (1996, 13) an important principle is that channel functions can be shifted among the channel members, but not totally eliminated. When channel intermediaries are not used, the supplier is responsible for performing all the channel functions, whereas in indirect channels, independent channel members take on specified channel responsibilities.

### *2.3.2 International Channel Structure*

International channel structure should be specified in terms of the number of channel levels, the intensity of middlemen at the various levels, and the number of different channels (Rosenbloom 1999, 208-211).



## **Channel length**

Channel length refers to the number of intermediaries in the channel. Marketing channels can be either direct or indirect. In a direct marketing channel, the supplier sells directly to end customers through its own sales force. In international context, direct sales to the end customer can be made by using own export mode or through a sales subsidiary in the foreign market (Gabrielsson 1999, 25-26). Own exporting means that there are no middlemen involved, domestic or foreign, and the supplier's personnel handle all the sales activities.

Direct sales to end customers can make sense when, for instance, the end customers are few in number, quite large and require extensive pre- and post-sale efforts. Products that are complex, ordered seldom, and expensive, are most often sold directly. (Hardy & Magrath 1988, 16) The advantages of a direct channel include that channel conflicts can be avoided through better channel control (Gabrielsson 1999, 38).

An indirect marketing channel, in turn, involves independent channel intermediaries between the supplier and the end customer. In case the company is using an indirect export mode in its international operations, the channel intermediaries are located in the supplier's home market to carry out the export activities, whereas in direct export mode, the first channel middleman is based in the foreign market. (Gabrielsson 1999, 23)

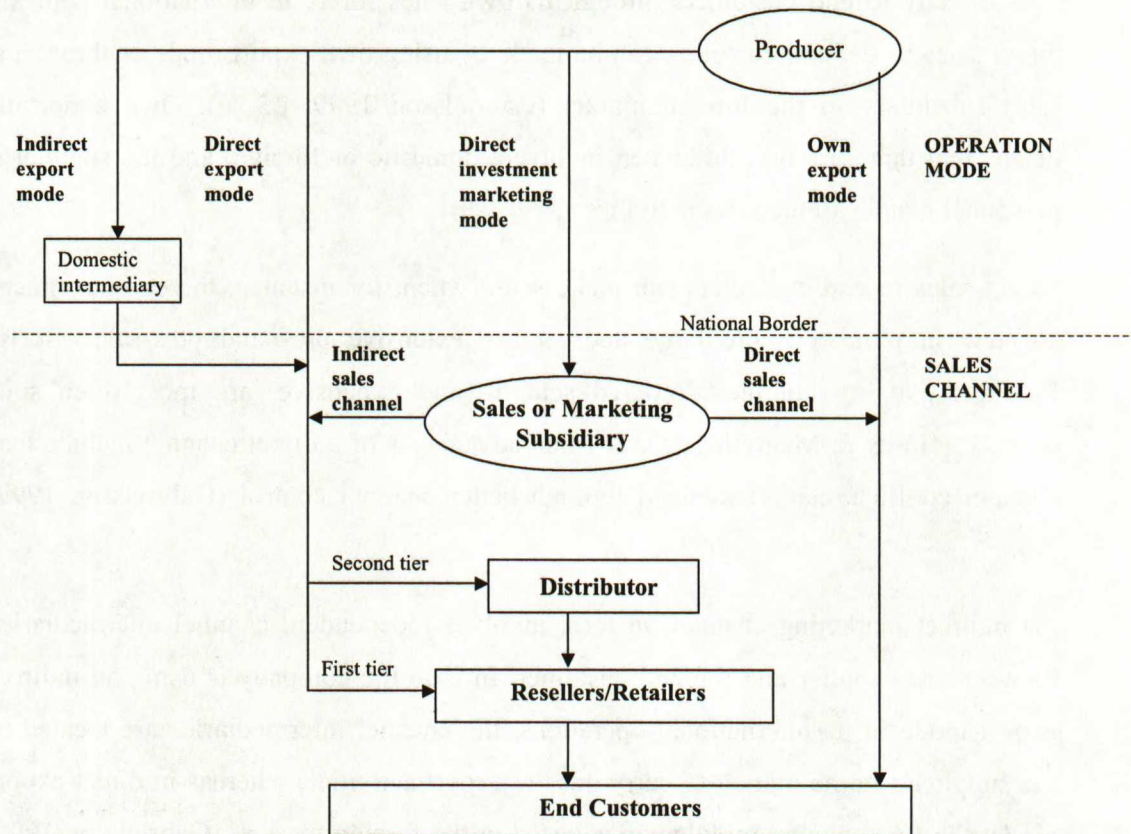
Products that are less technical and ordered more often by many customers from many locations are usually better reached with indirect channels (Hardy & Magrath 1988, 16). The use of indirect channel structure may allow for more rapid and less expensive market coverage expansion, which may be impossible with a direct channel structure due to, for example, limited resources (Gabrielsson 1999, 38). This is a particularly relevant point for born global companies, who aim at rapid market coverage with limited resources.

An indirect channel can consist of different levels, that is, the channel can have either a first-tier or a second-tier structure (Gabrielsson 1999, 25). The first tier refers to the use of resellers selling directly to end customers, whereas the second tier means that there is also another level, the distributors, between the supplier and the resellers.



The relations between international operation modes and marketing channel strategies are described in more detail in the following figure.

*Figure 2: Entry, Penetration Modes and Sales Channels for International Expansion*



Source: Gabriellsson et al. (2002, 76)

### Channel Width

According to Berman (1996, 14) channel width refers to the degree of competition at the channel level and to the intensity of distribution in a market area. In intensive distribution, all channel members meeting the requirements of the supplier can purchase the supplier's goods and services. There are, thus, as many outlets as possible used at each channel level and, therefore, the competition, as well as the market coverage of the product or service, is high. In exclusive distribution, only one channel member at any level can sell the manufacturer's goods and services in a given geographic area. The competition in the area is lower, but so is usually the market coverage of the products and services. Selective distribution, again, seeks to balance the amount of channel member competition and the degree of market coverage.



Therefore, not all possible intermediaries at a particular level are used, and those included are carefully selected. (Berman 1996, 14-17; Rosenbloom 1999, 208-210)

### **Number of Channels**

A single channel refers to a situation, in which the supplier uses either a direct, or an indirect marketing channel strategy. Due to several reasons, for example to increase market coverage or to control costs, suppliers add sometimes new channels to existing ones and thereby create multiple sales channels (Moriarty & Moran 1990, 146).

Multiple channels can be divided into dual and hybrid channels. In a dual channel strategy, the supplier is using simultaneously direct and indirect marketing channels. In a hybrid marketing channel, in turn, the marketing functions are shared by the supplier and the channel intermediary in a way that the supplier takes care of the promotion and customer generation activities, whereas the channel intermediary is in charge of sales and distribution. (Gabrielsson 1999, 27; Anderson et al. 1997, 66)

In dual channels, the risk of channel conflict and loss of control are often higher than when using hybrid channel structures. However, also hybrid channels can create channel conflicts as the competition for customers and revenues increases. The main distinction between the two multiple channel strategies is that the dual strategy is an adversative one, while the hybrid strategy is more grounded on cooperation and partnership. (Gabrielsson 1999, 38-39)

To sum up the discussion so far, channel strategy has been defined as a way to achieve distribution objectives, which involves both the design and the management of the marketing channel. Decisions concerning channel design were discussed in the previous section, whereas the next section of the chapter will look more closely into the other major part of channel strategy, namely to the actual channel management and particularly the channel partner motivation.

### **2.4 Channel Management and Motivation**

According to Anderson & Weitz (1989, 310), independent intermediaries selling the products of multiple suppliers to multiple buyers are the most common method of distributing goods and services. Marketing through independent target country based distributors and resellers, is also one of the most common foreign market entry strategies (Shipley et al. 1989, 79).



The use of independent distributors offers benefits in terms of lower capital investment and greater flexibility, but the coordination and control of independent channel members is often more difficult. This results from the fact that distributors and resellers are independent businesses with many different suppliers and limited resources. In the case of foreign channel middlemen, the supplier's ability to exercise control in the channel is even more difficult due to, for example, greater distances and cultural and communication differences. The suppliers should, however, be able to ensure that their international distributors and resellers are able and willing to behave and act in accordance with the supplier's objectives, which means that effective motivation of channel partners is needed.

#### *2.4.1 Motivating International Channel Members*

The challenge in motivating channel members is to find the means to secure strong channel cooperation in achieving the manufacturer's objectives (Rosenbloom 1999, 186). Motivation in the marketing channels can also be seen as getting the distributors and resellers to push the supplier's products more aggressively (Rosenbloom 1990, 53). Rosenbloom (1990) states that channel motivation is particularly important for those manufacturers who rely on independent channel partners for much of their distribution. In highly competitive markets, there are several suppliers competing for the same customers, and distributors and resellers can afford to choose which manufacturers' products they will actively sell and promote.

Cateora & Graham (1999, 442) emphasize also the role of motivation to maintain the high level of interest of channel partners in the manufacturer's products. The supplier's brand is often not known in international markets and, therefore, the channel members control the success or failure of products in their countries. The authors also state that there is a clear correlation between the middleman's motivation and sales volume.

Mallen (1977, 243) discusses channel motivation from the aspect of channel relations and more specifically, channel goodwill and control. He states that the fundamental objective of channel relations is to motivate the channel members to change or maintain their behavior and goals, so that they will perform in the manner that their channel leader sees optimal. According to Mallen, the art of motivation consists of the leader helping the channel members to attain as much of their goals as possible, while ensuring that his own goals are met also. Therefore, goals, roles and communications



must be established that motivate channel members to perform in the interest of the supplier. (Mallen 1977, 245-246)

Also Hardy & Magrath (1988) emphasize the importance of goal setting in motivation. Usually, suppliers prefer to set goals with middlemen regarding, for example, the quota that is to be sold, account lists that are to be serviced and service levels that should be maintained. Hardy & Magrath (1988) stress that middlemen should be involved in setting the goals related to, for example, sales quotas and territory coverage. Goals set should also go well together with the middlemen's ways of operating, earning profit and directing their resources. The goals set should also be realistic, meaning that they should be feasibly reached by ordinary performers. (Hardy & Magrath 1988, 518-519)

Although middlemen are required to maintain profitability via sales quota attainment, account servicing and inventory maintenance, for example, there are also other functions that manufacturer's ask from their middlemen. These functions could include providing proper display and promotion of goods, customer surveys, and complaint handling. Middlemen are also often required to participate in product or selling skills trainings. The requirements of the supplier from the partner are often closely linked to the goals of the supplier, and play also a role in motivating the channel partners.

To support the middlemen to carry out the required tasks, the manufacturers must speak with middlemen, involve them in goal setting and offer support programs. The manufacturers have to motivate their middlemen to not only carry out those tasks, but to do so aggressively and with enthusiasm. (Hardy & Magrath 1988, 520-521) There are also some very undesirable situations, such as weak selling efforts and switching to sales of competitive products that manufacturers wish to avoid. Hardy & Magrath (1988, 517) state that the purpose of learning how to motivate and control middlemen is to encourage desirable behavior and discourage the undesirable activities.

According to Rosenbloom (1999, 283), there are three basic features involved in channel motivation management, namely finding out the needs and the problems of channel members, offering them support that is consistent with their needs and problems and finally, providing leadership and control in the channel. (See also Pelton et al. 2002, 321) Before a supplier can offer successful programs to motivate its channel members, he must first learn what the members actually expect from the



relationship. Regular channel communication systems are usually not enough to obtain all the information needed and, therefore, Rosenbloom suggests using, for example, research studies, marketing channel audits or distributor advisory councils to find out the needs and problems of channel members.

After this information has been acquired, the next step should include offering support for the channel members to meet the needs and the problems discovered. Increasing the motivation of the channel partners requires carefully planned supportive programs, which Rosenbloom has divided into three categories: cooperative arrangements, partnerships or strategic alliances and distribution programming. The cooperative approach represents the least sophisticated and comprehensive approach to channel member support, whereas distribution programming is the most sophisticated and comprehensive. (Rosenbloom 1999, 290-305)

Channel support programs are discussed in more detail next.

#### *2.4.2 Channel Support Programs*

According to Shipley et al. (1989, 84), motivation programs are needed to attract and retain effective distributors and to induce them to allocate adequate commitment and resources to the supplier's objectives. Also Hardy & Magrath (1988, 164), argue that channel support programs are the key to motivating and controlling middlemen and, thus, require constant review on the part of the supplier.

Support menus vary in both the style of the program, as well as the mix of supports offered. For example, a resellers' support program could be more promotion oriented than a distributor's program, which, in turn, could be more sales-representative oriented. (Hardy & Magrath 1988, 155)

To find the right mix of supports for channel intermediaries, Hardy and Magrath (1988) suggest that a manufacturer should assess the respective roles of its channels and itself in market development activities. Manufacturers could offer, for example, special terms, sales promotions, sales leads programs, joint call programs, leasing packages, newsletters, help in inventory management, control systems, financial advice and training for their channel partners. Middlemen consider these opportunities in light of their own concerns, relating to their profitability, for example. It is, however, the responsibility of the supplier to select the most appropriate mix of supports for the



majority of the key middlemen in its channel. There is no one single formula for selecting the supports, but Hardy & Magrath (1988, 156) suggest to analyze, for example, the desired middlemen tasks. The channel support programs can, thus, be different for different partners.

Hardy & Magrath (1988) argue also that suppliers face trade-offs between the cost and the popularity of support programs. If the supplier would provide the middlemen all the support they request, the costs would be high. The following figure shows a grid of programs that are categorized according to manufacturer's cost and appeal to middlemen.

*Figure 3: A Trade-Off Grid for Selecting Channel Supports*

		General appeal of the support to middlemen		
		High	Medium	Low
Cost of support to the manufacturer	High	Generous margins Generous deals	Samples, premiums and sales aids for middleman representatives	Product catalogs not tailored to specific middleman needs
	Medium	Distributor training Joint calls	Distributor contests	Point-of-purchase display racks for single-purpose, manufacturer-defined use that are supplied to middleman premises
	Low	Dealer councils Co-operative advertising programs	Direct-mail programs for sales leads	Recognition programs for middleman sales representatives that may conflict with directions given by their own management

Source: Hardy & Magrath (1988, 158)

For example, dealer councils and co-operative advertising are low-cost programs that, nevertheless, have high appeal for many middlemen. Given the differences between the middlemen, each supplier has to examine the cost of a variety of support programs and determine which program holds the most appeal for the middlemen in each major channel. It should, however, be distinguished between what the middlemen want and what is effective. For example co-op advertising may be desirable by the channel partners, but not as effective, if all the competitors are offering the same support. The



middlemen, thus, also evaluate the support relative to what they are offered by other suppliers. (Hardy & Magrath 1988, 157-158)

Generally, channel support programs are of many kinds, and several factors, related to both the supplier and the partner, influence the decision on which support forms can be used. The factors that influence the choice of different support programs are discussed later in this chapter, but the different incentives and support forms available are discussed in more detail next.

#### *2.4.3 Financial and Non-Financial Motivators*

The support forms offered by suppliers can roughly be divided into financial and non-financial motivators.

The middlemen's motivation toward the supplier is, first of all, heavily influenced by the financial supports offered by manufacturers. Financial supports take many forms, such as volume discounts, discounts rewarding for early booking of orders, early payment of invoices, or attainment of annual sales goals. A key factor in motivation is the effect of manufacturer's actions on the middlemen's profitability. Generally, channel partners will be more motivated to support the manufacturer's efforts, if the manufacturer's programs are geared to benefit the middlemen financially. Thus, even though money may not be the only motivator, it certainly is a very important criterion. (Pelton et al. 2002, 322) A manufacturer can enlarge its intermediaries' profits by increasing their margins, increasing their inventory turns or reducing their expenses. Larger discounts will widen the margins, sales promotion will boost sales and also inventory turnover. Expenses can be reduced by, for example, co-operative advertising programs. (Hardy & Magrath 1988, 161-163)

Non-financial supports, such as dealer councils, training, and marketing material can help in creating long-term relationships with middlemen. Many of the non-financial support forms are also harder for competitors to copy and therefore important in creating competitive advantage. (Hardy & Magrath 1988, 167) One important non-financial motivator is the provision of new products to create enthusiasm in the intermediaries' sales force. If product lines are static, the middlemen have nothing new to present and their motivation towards the product line will diminish over time. (Hardy & Magrath 1988, 526)



Goodman and Dion (2001) have also considered the product salability as an important determinant of relationship commitment. They define product salability as the distributor's perception of the products of having value, being useful, well serviced and of good quality. The distributor assesses the supplier's product in terms of whether it is technically more advanced than the competing products, whether it is a better value for the money, useful for the end user and a high quality product accompanied with good service from the supplier. Also a study by Anderson et al. (1987) supports the importance of the product-related factors, as according to their study, the ease of sale, the growth rate and the customer acceptance of the product affected positively the resource allocation decisions of distributors and resellers toward a particular supplier's product line. (Anderson et al. 1987, 87)

Simpson et al. (2001) emphasized also the role of a unique product bundle in creating value in supplier-distributor relationships. The greater the perceived value of the product attributes such as quality, reliability, price, profitability, line assortment, guarantees, physical design, innovativeness and the market competitiveness of the product, the greater the possibility that the reseller perceives real value from the relationship and is also more motivated to the supplier's products and services.

Besides product issues, also aspects related to physical distribution can be an important non-financial motivator. The firm's ability to make a product or service available to its customers on a dependable basis can be vital to partnership success. Simpson et al (2001), for example, argue that effective order processing and fast and reliable delivery of products and services can significantly impact the value and financial performance of channel intermediaries and that way also affect their motivation to put efforts on a certain supplier's product line.

Training can be a strong middleman motivator as well, and a way to improve the productivity of the sales force. Also meeting with the channel partners can be a simple and inexpensive motivator, as well as praise for accomplishments and recognition for notable milestones. (Hardy & Magrath 1988, 526-529)

Other studies on channel partner motivation confirm the need for balanced programs between different financial and non-financial supports as well. Cohen (1998, 53-56) stresses the importance of selecting the best channel members already in the beginning, training the channel members to improve their selling skills and increase their loyalty



towards the supplier's products, offering the members adequate sales margins, communicating efficiently with the channel, listening to channel members in terms of end customer information, and finally keep motivating the channel members effectively. Also, the ability to offer the partners something different from other suppliers is pointed out.

Cateora & Graham (1999, 442), in turn, group the motivational techniques into five categories: financial rewards, psychological rewards, communications, company support and corporate rapport. The authors state that all of these aspects are important to keep international channel members alert and motivated towards the company's products and services. The results of the study by Shipley et al. (1989), again, showed that the most important motivators used by British exporters included granting territorial exclusivity, using financial rewards, maintaining effective communication, maintaining good working relations, and using different types of support, such as sales training, advertising and promotional support, financial assistance and management training. (Shipley et al. 1989, 86)

A study conducted by Anderson et al. (1987) deals with channel partner motivation from the perspective of resource allocation decisions in conventional channels. It was found that resource allocation decisions were strongly affected by short-term marginal returns; thus, channel members allocate their most precious resource, selling time, in a way that maximizes their profits. Additionally, promotions directed toward end users and sales training were considered important to make the products easier to sell, and that way increase the motivation toward the supplier's products. On the other hand, channel climate, characterized by goal compatibility and mutual trust, was also noticed to affect the resource allocation decisions.

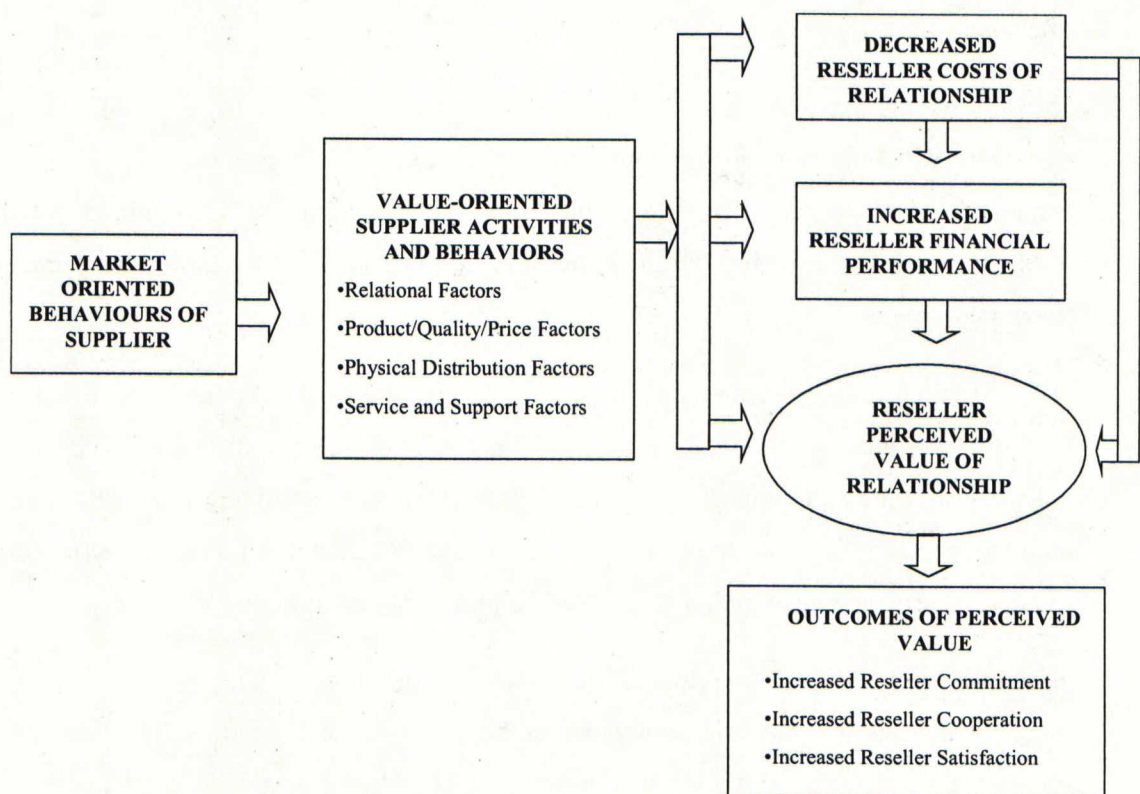
Yet another way to observe channel motivation tactics is provided by Simpson et al. (2001), who have studied the concept of value creation and its determinants and effects in supplier-reseller relationships. The foundation for value creation, according to Simpson et al. (2001) is market orientation of the supplier, defined as the culture that places the highest priority on the profitable creation and maintenance of customer value, while also considering the interests of other key stakeholders. The market-oriented behaviors guide the supplier's activities toward superior value creation in terms of relational, product, physical distribution and service factors. Simpson et al. (2001) argue that supplier's enhancement of all of these factors decrease reseller costs



of the relationship, increase reseller financial performance and eventually, increase reseller perceived value of the relationship. Increased perceived value derived from the relationship, in turn, leads to stronger commitment to the supplier and greater cooperation and satisfaction with the supplier. Based on Simpson et al. (2001), one can also assume that greater value from the channel relationship can enhance the motivation of channel partners to commit themselves to the supplier's products and services.

The framework of value creation by Simpson et al. (2001) is presented in the following figure.

*Figure 4: Framework of Value Creation*



Source: Simpson et al. (2001, 123)

### Summary

To sum up the discussion on motivation so far, the marketing channel literature indicates, first of all, that motivation of channel partners is a critical task in effective marketing channel management, particularly in the context of independent channel



intermediaries. Motivation is needed to ensure that the distributors and resellers are able and willing to cooperate, and behave and act in accordance with the supplier's objectives so that the goals of the supplier can be achieved. Motivation is also important to make sure that the channel partners are enthusiastic and aggressive in promoting the supplier's products and services.

Different kinds of support programs seem to be the main tactical aspect of channel partner motivation. The programs are necessary to attract and retain effective distributors and resellers and to encourage them to allocate adequate commitment and resources for selling and promotion of the supplier's products. Before effective motivation is possible, Rosenbloom (1999) suggests finding out the needs of the partners, offering adequate support according to the needs and providing leadership in the channel.

It was also agreed that channel programs can be very different to different channel members depending on, for example, their roles in the channel structure, or on the supplier's own position. Therefore, the supplier has to choose from the different motivation tactics available the ones that are the most suitable for particular channel members.

The different support forms can roughly be divided into financial and non-financial motivators. Financial motivators include, for example, volume discounts and co-op advertising funds. Training, promotional assistance and good communication are among the most important non-financial motivators. Product and physical distribution related factors were also included as essential non-financial motivators.

The marketing channel literature discussed above provides a good general view on marketing channels and how channel members can be motivated. To provide new insights on motivation, two other theoretical approaches are introduced, namely the agency theory and the relationship marketing theory.

## **2.5 Agency Theory Approach to Motivation**

As was stated, the tasks of motivating and coordinating channel relationships are important to ensure that the objectives of the supplier are achieved. Agency theory provides one approach for coordinating supplier-distributor relationships. In simple terms, the theory proposes that control problems in agency relationships result from



differences in objectives and risk preferences of the parties, as well as from information asymmetries, meaning that one party has information that the other party desires but, does not have (Bergen et al. 1992, 3). Coordination in agency relationships can be achieved by focusing either on the outcomes of the distributor, or alternatively on the behavior of the distributor to align the interests of the two parties.

Agency theory is along transaction cost analysis (TCA) and resource dependence theory perhaps one of the widest known economic-based theories applied in marketing channel research. The transaction cost analysis is mostly interested in the optimal level of vertical integration; thus, performing the distribution function internally, whereas resource dependency theory is more concerned about reducing uncertainty and managing dependency by forming interfirm relationships (Heide 1994). The agency theory, in turn, deals with cooperative relationships which develop in economic exchange when one party (the principal) delegates work to another (the agent) on his behalf and the welfare of the principal becomes, thus, partially affected by the decisions of the agent. The concern of the theory is that the welfare of the principal may not be maximized, because the principal and the agent tend to have different goals and attitudes toward risk (Wright et al. 2001, 413).

The following section will introduce the agency theory in more detail, as well as its implications for coordination and motivation of the channel members. Additionally, the applicability and the usefulness of the agency approach for studying channel relationships in the software industry is discussed.

#### *2.5.1 Principals and Agents and the Agency Problem*

An agency relationship is present when one party, the principal, depends on another party, the agent, to undertake some action on his behalf (Bergen et al. 1992, 1). According to Lassar & Kerr (1996, 614), manufacturer-distributor relationships meet the requirements for a useful application of agency theory as the two parties are interdependent and cooperative, but may rationally pursue different or even contradictory goals. Both of the parties are, nevertheless, independent companies, who prioritize their own performance and success over the other party's needs. Still, manufacturers have to rely on their distributors and resellers to perform several functions on their behalf, such as provision of self-space, local advertising, point-of-



purchase promotion or technical service. (Bergen et al. 1992, 13) Thus, in channel relationships, distributors and resellers act as agents for suppliers.

The agency theory is concerned with resolving two problems that can occur in agency relationships. The first problem arises when the desires or the goals of the principal and the agent conflict, and it is difficult or expensive for the principal to get information from the agent's behavior. The principal cannot, thus, perfectly or without costs monitor the agent's actions and the information he has. The second problem is that the principal and the agent may prefer different actions because of different risk preferences. (Eisenhardt 1989a, Celly & Frazier 1996)

There is, thus, information asymmetry involved in agency relationships, which results from the division of tasks and from the conflicting goals and risk preferences of the two parties. Due to the fact that the agent might have more specialized market information and that he might not have same goals as the principal, the agent may have the motive and the opportunity to behave in ways that maximize his own utility at the expense of the principal. Additionally, the actions that the principal would like the agent to perform might be too costly to undertake. (Lassar & Kerr 1996, 614) The problem of the agency theory is how to structure an agreement that will motivate the agent to serve the principal's interests even, when its actions and the information it possesses can not always be observed by the principal (Pratt & Zeckhauser, 1985).

#### *2.5.2 Behavior-Based vs. Output-Based Contracts*

The principals' aim is to effectively co-align the goals of both partners to reduce the conflicts that arise from differing objectives, and to minimize any potential for opportunistic behavior (Roath et al. 2002, 3). To ensure that his interests are taken into account, the principal may try to reduce the information asymmetry by investing in monitoring systems, thus, collect more information, for example reports and field observations, about the agent's behavior. The principal can then write a contract based on this information, and thereby limit the agent's opportunity to act in ways, which are not favorable for him. This contract is referred as behavior-based contract. (Lassar & Kerr 1996, Bergen et al. 1992)

Alternatively, the principal can offer the agent incentives based on his performance, and write a contract that evaluates and rewards the agent based only on realized outcomes, for example sales volumes. (Lassar & Kerr 1996, Bergen et al. 1992) An



example of an output-based contract would be an agreement about discounts based on sales volumes; thus, the more the agent sells, the higher will be the profit margins he earns. The higher sales are naturally also in the interests of the principal.

### 2.5.3 *Efficiency of Contracts*

Agency theory uses the metaphor of contract to describe the relationship. According to Eisenhardt (1989a, 58), the focus of the theory is to determine the most efficient contract to govern the relationship given assumptions about people (self-interest, bounded rationality, risk aversion), organizations (goal conflict) and information (has to be purchased). The model assumes that both of the parties to the relationship are motivated by self-interest, which typically means that both parties are interested in maximizing their own profits. Environmental uncertainty is also present in the model, because there are environmental factors involved that change over time, are difficult to predict and are beyond the control of either the principal or the agent (Bergen et al, 1992).

The agency costs include the investments in monitoring systems aimed at reducing the principal's information deficit and restricting the agent's opportunism, and the costs of transferring risk to the agent in the form of incentives based on the agent's performance. The efficiency of the two options determines which of the two control mechanisms form the basis of the contract, or the relationship, between the principal and the agent. Bergen et al. (1992, 2), state, however, that efficiency in the agency model is defined solely from the principal's point of view, as it is considered to be the dominant party in the relationship. Thus, from the agency model perspective, an efficient contract brings the best possible result for the principal, rather than maximizing the joint utility of both parties.

Output and behavior-based contracts present, hence, the two approaches that the supplier can use to increase distributor motivation towards the supplier's product lines, and the form of the contract between the parties depends on the relative costs of the options (Celly & Frazier 1996, 201). The following table lists the variables that affect the costs of the two different types of contracts:



*Table 1: Variables Affecting the Efficiency of Behavior-Based vs. Output-Based Distributor Contracts*

	Behavior-based contract is efficient when:	Output-based contract is efficient when:
Monitoring ability	High	Low
Task observability	High	Low
Clarity of outcome measures	Low	High
Goal conflict	Low	High
Length of the relationship	Long	Short
Risk aversion	Agent	Principal
Outcome uncertainty	High	Low

Source: Lassar & Kerr (1996) and Eisenhardt (1989a)

For example, when outcome measures are not clear or when the supplier is willing to invest in monitoring systems, the type of contract used will most likely be behavior-based, which attempts to directly control the distributor's behavior, in terms of, for example, selling efforts or training. Behavior-based contract is, according to Lassar and Kerr (1996, 616), also appropriate for well-established supplier-distributor relationships in which goal conflict is often relatively low.

The behavior-based contract will stipulate specific behaviors desired by the supplier and emphasize certain tasks and activities that will eventually lead to bottom-line results (Celly & Frazier 1996, 201). They will also impose restrictions on variables such as inventory levels, range of products sold, approval for advertising and promotions, carrying of competing products and training of sales and service personnel. Additionally, the manufacturer may wish to apply centralized coordination and control of all distributors within a given market area and provide high levels of support in terms of, for example, financing, promotional allowances, co-op advertising, and training. (Lassar & Kerr, 1996, 616)

However, when outcome measures are clear and the manufacturer is not willing to invest in relatively expensive monitoring systems, the manufacturer will most likely offer the distributor a contract that attempts to control the distributor by compensating the agent based only on measurable outcomes, such as sales of the supplier's products. The outcome-based contract has often very few restrictions and also the monitoring of the distributor's behavior is minimal. The compensation of the distributor consists solely of the margin he has earned. (Lassar & Kerr 1996)



According to Lassar & Kerr (1996), output-based contract is more appropriate for new manufacturer-distributor relationships or in situations, where the goals of the parties are very different. Financing and promotional support, as well as coordination of distributors, is likely to be very limited. Similarly, the distributor avoids any investments in assets or programs specific to the manufacturer. Thus, both parties maintain flexibility and avoid commitments that may impose switching costs if a more promising relationship emerges. (Lassar & Kerr 1996, 616)

#### *2.5.4 Agency Relationships of Software Suppliers*

The agency model can also be applied to describe channel relationships in the software industry. Agency relationships are clearly present between the software suppliers and their channel partners. Most of the products and services are delivered to end customers through intermediaries, distributors and resellers, who act as agents for the vendor. The products are often complex and require service elements, such as implementation, technical support and training, which are often also provided to the end customers by distributors or value-added resellers.

Suppliers may use independent distributors for various reasons, for example due to limited resources of their own. Independent distributors, in turn, depend on the vendor to supply attractive products at competitive prices. The distributor and the supplier share, thus, the goal of maximizing the sales of the supplier's product.

When the supplier delegates the distribution task to the distributor, he, however, takes the risk that the distributor will pursue this basic goal in ways that conflict with the supplier's broader goals. The distributor company is an independent business with multiple suppliers and product lines, as well as with limited resources, and his objectives may be different from the supplier's objectives. The distributor may, for example, carry and promote competing products, price above or below the preferred price range, advertise and promote the product inappropriately, neglect the training of sales personnel or fail to provide adequate after-sale services. (Lassar & Kerr 1996, 615)

Differences in goals and risk preferences between a supplier and a reseller can lead to conflicts on, for example, how revenues and costs should be allocated among the participants, which can in turn produce incentive problems. For example, if the supplier offers too low margins to the reseller, the reseller might not have adequate



incentives to promote the product aggressively. In turn, if the reseller overprices the product in such circumstances, the sales volumes might decrease and leave the supplier with smaller profits.

As noted, the problem of the agency theory is how to structure a contract that will encourage the agents to serve the principal's interests even when their actions and information can not be observed by the principal (Pratt & Zeckhauser, 1985). The contract can be a formal contract, such as a compensation plan, or any mutual agreement about the terms of the relationship (Bergen et al. 1992, 2). Two types of contracts were discussed: behavior-based contracts and output-based contracts. The channel program of the software supplier plays a critical role in determining the nature of the contract; thus does the program include incentives based solely on the performance of the agent, for example the sales volumes, or does it include supportive value transfers in the form of, for example, promotional allowances or training, but also certain restrictions, in terms of for example pricing and promotion.

The question is, thus, that which type of channel program is the most efficient to govern the relationship given the characteristics of the parties and the environment. In other words, the suppliers have to decide whether a behavior-based or an output-based support program, or a combination of the two, is the most efficient from their point of view and consider also whether their channel partners would value that program. If the objectives of the parties can be aligned in the program, also the possibility that the goals of the principal are met is bigger.

When considering the software industry, one could assume that channel partners would value the behavior-based partner program more than the output-based contract. The assumption can be made based on the fact that software distributors and resellers have to often provide value-added services, such as maintenance and support services to the end users of the supplier's products. The output of value-added services is often difficult to measure, thus, output based contract would not reward the engagement in these type of non-direct sales activities. In the behavior-based contract, value-added services can better be evaluated and rewarded. (Lassar & Kerr 1996, 620; Celly and Frazier 1996, 203)

Additionally, software products are often relatively complex and require therefore greater levels of expertise from the distributor's personnel. Distributor's service



standards and policies can have significant effect on the product's image; thus, also the supplier may wish to coordinate and control the behavior of the channel intermediaries more closely in the context of software industry.

According to Lassar & Kerr (1996, 620), distributor's commitment to a certain brand or a product is increased by the manufacturer's willingness and ability to provide support. A strong support program reduces the distributor's cost and risk of carrying a product and promotes satisfaction in the channel relationship. Weak support program, in turn, imposes greater costs and risks on the distributor and signals the supplier's unwillingness to make investments in the channel.

According to Eisenhardt (1989a), high outcome uncertainty is positively related to behavior-based contracts and negatively to outcome-based contracts. Environmental uncertainty can be defined as the degree to which future states of the world cannot be anticipated or accurately predicted (Pfeffer & Salancik 1978, 67). When uncertainty is high, achieved sales results may not provide suppliers with meaningful information about the distributors' support for their product lines. Under high uncertainty, the motivational role of output-based contracts could be low, because the distributor may be unsure about the relationship between its efforts and sales performance (Celly & Frazier 1996, 201). Therefore, as the software industry can be characterized by high levels of uncertainty, due to for example rapid rate of technological change, it could be assumed that channel partners would value behavior-based contracts more.

Behaviors and outcomes of the resellers and distributor are, hence, some of the basic elements of channel relationships also in the context of software industry. An emphasis by the supplier either on outcomes or behavior gives signals to the channel middlemen about what is important in the relationship. Effective use of either one of the coordination mechanisms has most likely an impact on the partners' motivation and on overall support for the supplier's products and services (Celly & Frazier 1996, 207).

Even though the agency theory is praised by some researchers, others (e.g. Weitz & Jap 1995; Wright et al. 2001; Eisenhardt 1989a) argue, however, that the theory is too narrowly focused on addressing only a limited set of control and coordination actions affecting channel relationships. Agency theory emphasizes only one firm (the principal) making decisions to maximize its own profits, instead of two firms working together to maximize the profit generated by the relationship as well as their individual



profits. The assumption of the theory is that the principal is the dominant party in the relationship, which is often not the case, at least in the software industry.

The agency theory presents, thus, only a partial view of the world, focusing on incentives and the self-interest of the parties, whereas additional complexity of organizations and their behavior is more or less ignored. Therefore, Eisenhardt (1989a) recommends using additional perspectives or complementary theories to capture the greater complexity of real life. Besides economic incentives, channel research has identified other factors that serve to preserve channel relationships, such as trust and commitment, for example (Weitz & Jap 1995).

Therefore, the next section introduces additional aspects relevant to managing channel relationships and motivating channel partners in the software industry, namely the relationship marketing approach, which is more concerned with mutual relational aspects, instead of the quite unilateral view provided by the agency theory.

## **2.6 Relationship Marketing Approach to Motivation**

The significance of forming and maintaining long-term customer relationships has recently been recognized in marketing. Relationship marketing, which has been defined, for example, as establishing, developing, and maintaining successful mutually beneficial long-term relational exchanges, seems to represent a major shift in the marketing theory and practice (Morgan and Hunt, 1994, 22). This direction in marketing emphasizes long-term win-win type of relationships between sellers and buyers, instead of short-term market transactions with no collaboration between the parties. The core of the relationship marketing is, thus, on maintaining relations between the company and the actors in its environment.

The change in the nature of marketing is driven by several conditions, such as more intense, often global competition, the fragmentation of markets, more demanding customers and rapidly changing customer patterns. The need for relationship marketing stems, therefore, from the changing dynamics of the global market place, and the changing requirements for competitive success (Morgan & Hunt 1994, 34). Enduring relationships with customers cannot be easily duplicated by competitors and, therefore, can provide a unique and sustained competitive advantage (Buttle, 1996).



### *2.6.1 The Basics of Relationship Marketing Theory*

As stated, marketing scholars have increasingly been studying relationship marketing and the value of cooperative and collaborative relationships between buyers and sellers, as well as relationships between different marketing actors, such as suppliers, competitors and distributors in delivering customer value (Parvatiyar & Sheth 2000, 3). Definitions of relationship marketing range from database marketing and customer retention to more holistic views of attracting, maintaining and enhancing long-term customer relationships. Parvatiyar and Sheth (2000, 9) have defined relationship marketing as an “ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at reduced cost”.

Despite the differing definitions, most of the relationship marketing authors seem to agree that developing and maintaining marketing relationships is a process. It is also agreed that relationship marketing is concerned with long-term cooperative and collaborative relationships between the firm and its customers, which can include consumers, distributors, other channel members, and business-to-business customers. Long-term orientation is often emphasized, because it is believed that marketing actors will not engage in opportunistic behavior if they have long-term orientation and that such relationships will be characterized by mutual gains and cooperation (Ganesan, 1994). Additionally, it is accepted that cooperative and collaborative relationships lead to greater market value creation and benefits for all the parties involved in the relationship. The core purpose of relationship marketing is, thus, to create and enhance mutual economic value. (Parvatiyar & Sheth 2000, 9)

### *2.6.2 Channel Conflict, Control and Coordination*

The issues of control and coordination are essential also in the relationship marketing, as channel members are independent firms with each having their own goals of maximizing performance and value to their shareholders. Even though the goals of the channel members and the supplier are to some extent the same, each channel member prioritizes its own financial performance over the common good of the relationship. Coordinating channel relationships is, consequently, a challenge, but it needs to be handled somehow to achieve the common goals of the channel.



At the heart of the supplier-middleman relationship is the understanding of the inbuilt potential for conflict between the channel parties that is produced, because the objectives of most middlemen differ from the objectives of most suppliers. Middlemen, for example, wish to often market a broad selection of products to established accounts, whereas suppliers often push them to add more accounts and restrict their offerings to the supplier's own products. Hence, there is a basic tension between the parties that can create conflicts in the channel. (Hardy & Magrath 1988, 113-114)

The fundamental causes of channel conflict are differences over goals, roles and understanding of reality (Mallen 1977, 231). The main conflicts between the suppliers and their middlemen often involve direct sales, addition of new channels, addition of new channel partners within the existing channels, margins for channel functions performed, participation in promotion programs and sharing of end customer information (Hardy & Magrath 1988, 115).

According to Mallen (1977), conflict is inherent in a political-social system such as a channel of distribution, where the different members are dependent on one another's actions and must compete for limited resources. However, conflict has not necessarily a negative influence on the operation of the system. A certain amount of conflict is good for discouraging complacency and encouraging innovation. Nevertheless, when the conflict rises above a certain level, it becomes dysfunctional, and problems begin. The channel members stop cooperating and tend to duplicate each other's efforts, which can lead to poor financial performance and inefficiencies. (Mallen 1977, 229-231)

Channel control is needed to foster coordination and cooperation in the channel. The literature recognizes basically three control mechanisms that can be used to coordinate the activities in the channel: authoritative, contractual and normative control. Authoritative control mechanism involves one party in the relationship applying its position to control the activities of another party (Weitz and Jap 1995, 306). In the channel of independent members, the opportunity to control the activities of the other party can result from an imbalance of resources; that is, the more powerful channel member has greater resources that are valued by the less powerful channel member.



Contractual control mechanism involves an agreement between the parties about the terms defining their responsibilities and rewards for performing certain channel activities. The agency theory offers a perspective on how contractual terms should be developed under conditions of uncertainty, information asymmetry and risk preferences, and it is, thus, a form of contractual control mechanism. (Weitz & Jap 1995, 306)

Normative control, in turn, involves a shared set of principals or norms that coordinate the activities performed by the parties and govern the relationship. Normative control has also been referred as relational governance, in which implicit contracts identify a set of mutual expectations and understanding between the channel partners (Lusch & Brown 1996, 19). Norms in conventional channels can be learnt through past interactions and marketplace reputation. Normative control mechanism also typically involves the consideration of both parties' needs and mutual acceptance of the norms.

Weitz and Jap (1995) point out that the research in marketing channels is more and more shifting toward studying relationships that involve particularly contractual and normative mechanisms, instead of authoritative control. One of the main reasons for this include that channel intermediaries are becoming more powerful, thus the power in the channel is more equally distributed preventing partially the authoritative use of power by the supplier. The use of power as a coordinating mechanism is in practice limited to asymmetrical relationships, referring to relationships in which one channel member is more powerful than the other.

Also, Pelton et al. (2002) and Goodman & Dion (2001) state that attempts to use unilateral control usually fail in today's marketing channel environment, because of the trend toward larger and more powerful distribution organizations. Goodman & Dion (2001) point out that in this situation, securing distributor commitment becomes even more important. This seems to be also the case in the software industry. The channel partners in the software sector share commonly equal power with their suppliers and, therefore, there are often no opportunities for the supplier to exercise authoritative or unilateral control mechanisms (Hoch et al. 2000, 192).

#### *2.6.3 Relationship Marketing in the Marketing Channels*

Managing relationships between people and companies performing distribution and marketing functions is an important topic in the channel management research. As



Weitz and Jap (1995, 305) argue, almost all channel transactions have some relational elements that can be used to coordinate channel activities and manage relationships between channel members. Business relationships in marketing channels are often characterized as being interdependent and reciprocal (Möller & Halinen, 2000). The interests of both academic researchers and practitioners in the channel research have, thus, been shifting from approaches used by one firm, typically the manufacturer, to coordinate channel activities to approaches for stimulating cooperative efforts between independent channel members.

As markets have become more competitive, many companies have abandoned the use of power to coordinate marketing channels. Instead, they are treating their channel members as partners and viewing these partnerships as long-term relationships characterized by mutual commitment. The incentive behind this is to increase the value of the channel's market offering to the end customers or, alternatively, lower the total costs and thereby improve the channel's performance. (Brown et al. 1995, 363)

Anderson and Narus (1990, 42), for example, stress the importance of manufacturer working partnerships, which are defined as the extent to which there is mutual recognition and understanding that the success of each firm depends in part on the other firm. This means that each firm should consequently take actions to provide a coordinated effort focused on satisfying the requirements of the customer marketplace. Anderson and Narus (1990) point out also that working partnerships are essential for achieving mutual success in the market place, where manufacturers and distributors are involved in fewer, but increasingly important partnerships. Also Anderson & Weitz (1992) state that developing close cooperative channel relationships based on trust and commitment can deliver significant benefits to the participating firms.

An important aspect of building and sustaining partnerships in the channel is the ability to provide the partner firm with some advantage relative to alternative potential partners, referred as partnership advantage (Sethuraman et al. 1988, 328). Channel middleman, for instance, may provide the supplier partnership advantage with superior market penetration ability and knowledge of local markets. The supplier, on the other hand, may provide its channel partners partnership advantage with superior product offering and different support mechanisms. Generally, by providing the partners partnership advantage, more stable and coordinated channel relationships can be created. (Sethuraman et al. 1988, 342)



Since relationship marketing approach emphasizes cooperative and collaborative partnerships, which lead to greater mutual value and advantages for all the parties involved, it can be assumed that creating and maintaining these kind of relationships have some effect on the motivation of channel partners. When channel partners benefit from the relationship, they will most likely be more motivated to commit themselves strongly to the supplier's products and services. If the partners, on the other hand, do not perceive to achieve any advantages, the relationship will worsen, which is harmful also for motivation.

#### *2.6.4 Characteristics of Successful Relationships*

It has been recognized that successful relationships create mutual value, improve performance, increase satisfaction and eventually play a role in motivating international channel members. Building mutually beneficial relationships with channel members can, hence, be an important way to motivate the channel partners to sell and promote the products of a particular supplier.

A good deal has been written on the components of successful relationships. Academics have developed models that define many of the relevant variables that influence success or failure in a relationship (Wilson 2000). Morgan and Hunt (1994, 22) state, for example, that the central theme of relationship marketing is to understand what distinguishes productive and effective relationships from unproductive and ineffective, that is, what produces relationship marketing success instead of failure. Their main argument is that the presence of commitment and trust is central to successful relationship marketing and not, for example, power or the ability to influence others.

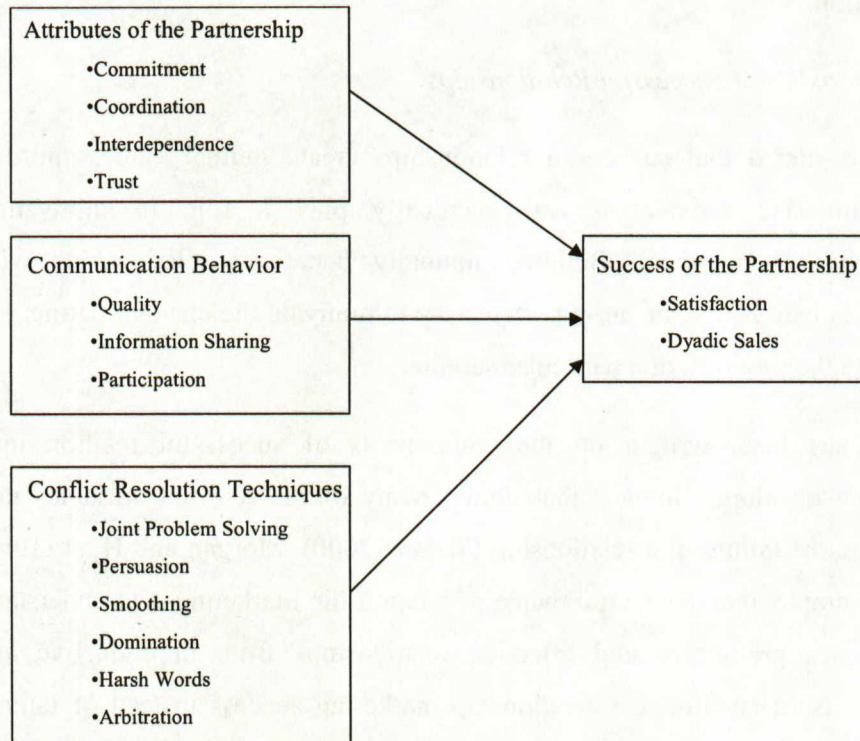
Mohr and Spekman (1994) have also studied characteristics that make some partnerships more successful than others. The success of the partnership is indicated by the sales volume between the partners and the satisfaction of one party to another. The characteristics of successful partnerships have been divided into three categories, namely to attributes of the partnership; including coordination, commitment, trust and level of interdependence; communication behaviors; including communication quality, information sharing and participation; and conflict resolution techniques; including, for example, joint problem solving and arbitration. Their study among dealers and manufacturers in the computer industry showed that effective coordination, positive



partner attitudes and behaviors in terms of commitment and trust, meaningful communication and win-win conflict resolution techniques can significantly contribute to partnership success. The existence of these characteristics in the relationship implies strongly that partners are willing to work toward the common good of the relationship.

Their model of partnership success is presented in the next figure.

*Figure 5: Factors Associated with Partnership Success*



Source: Mohr & Spekman (1994, 137)

All in all, researchers have found that successful partnerships incorporate some common characteristics, such as cooperation and trust, balanced interdependence, mutual commitment and frequent communication, for example. Authors seem to, however, emphasize different success factors, and also the causal ordering of the factors is to some extent unclear. Nevertheless, some of the constructs of successful channel relationships are discussed next in more detail.

### *Commitment*

Commitment has been defined, for example, as a partner's belief that an ongoing relationship with another is so important that it is worth maximum efforts to ensure

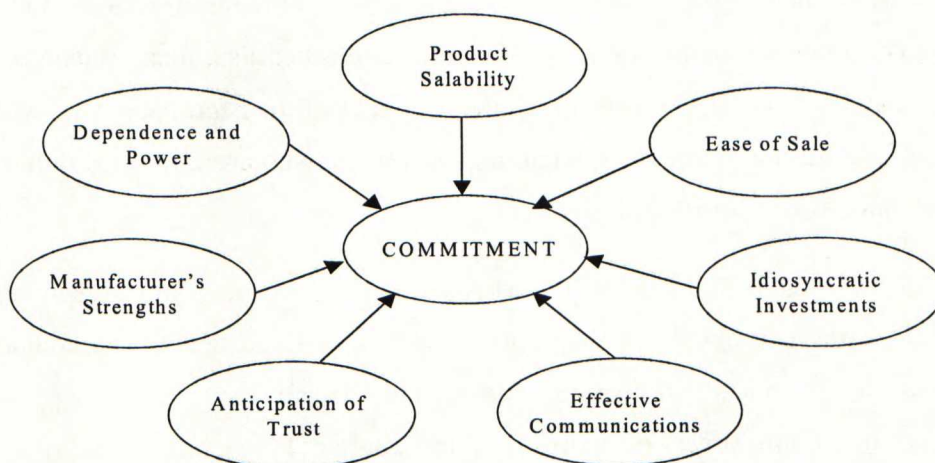


that it will continue (Morgan & Hunt 1994). In other words, commitment refers to a desire to maintain a valued relationship and it exists, therefore, only, when a relationship is considered important. According to Morgan and Hunt (1994, 23), commitment is vital in relationships, because it leads to outcomes such as decreased turnover of partners and higher motivation.

Anderson and Weitz (1992, 19), in turn, argue that commitment to a relationship involves a desire to develop a long-term stable relationship, a willingness to make short-term sacrifices to maintain the relationship and a confidence in the stability of the relationship. Because of mutual commitment, independent channel members work together to serve customer needs better, and enhance that way mutual profitability. Commitment provides the basis for cooperation in the relationships and leads, consequently, to stronger relationships. Commitment also provides greater access to market information for manufacturers and reduces distributor interest in promoting competitive brands. (Anderson & Weitz 1992, 19) Even when alternative suppliers enter the market offering better deals, current suppliers are unlikely to be replaced in relationships where commitment and trust are present (Young & Denize 1995).

Goodman and Dion (2001) divide the determinants of commitment into behavioral and marketing determinants. Important behavioral determinants of commitment include trust, non-coercive power and effective communications. Marketing determinants, then again, comprise of dependence, idiosyncratic investments and product salability. Their commitment model is presented in the following figure:

*Figure 6: Commitment Model*



Source: Goodman & Dion (2001, 298)



Particularly idiosyncratic investments seem to play an important role in creating commitment and incentives to stay in the relationship. Idiosyncratic investments are investments specific to a certain relationship and, therefore, difficult or impossible to deploy to another relationship. Thus, relationship-specific investments lose value if the relationship does not continue. Some examples of idiosyncratic investments in channel relationships are training, dedicating personnel to servicing a supplier's products, adopting a common order processing system and linking the supplier and the distributor in the customer's mind through common promotion and advertising. (Anderson & Weitz 1992, 20) The relationship specific investments communicate strong commitment by the supplier, but also effectively commit the channel partner to the relationship (Goodman & Dion 2001, 292).

### *Trust*

Trust has been defined several different ways in marketing channel literature; for example, as the belief that one's word is reliable, and that a party fulfils its obligations in an exchange (Mohr & Spekman 1994, 138). Anderson and Narus (1990, 45) define trust as the firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes. Trust is an expectation that results from the partner's expertise, reliability and intentionality.

Ganesan (1994) suggests that the definition of trust reflects two separate components: credibility and benevolence. Credibility is based on the extent to which the reseller believes that the supplier has the required expertise to perform the task effectively and reliably, whereas benevolence is based on the extent to which the reseller believes that the supplier has intentions and motives beneficial to the reseller also in new situations. Therefore, suppliers who are concerned with the outcomes of their resellers along with their own will be trusted to a greater extent than suppliers, who are interested only in their own welfare. (Ganesan 1994, 3)

According to Anderson et al. (1987, 87), trust is particularly important in conventional channels, where the termination of the relationship is a credible threat. The authors argue that channel members will be more motivated to allocate resources to a supplier if they believe that future stream of returns is secure. Kumar (1996), in turn, states that trust is stronger than fear in relationships and that partners that trust each other,



generate greater profits, serve customers better and are more adaptable. When both sides trust each other, they are able to, for example share confidential information, invest in understanding each other's business and customize their information systems or dedicate people or resources to serve each other better. A trusting party will often not need to monitor its partner's behavior so closely, and most importantly, trust allows a company to "capture the hearts and minds of channel partners so that they will go the extra mile" (Kumar 1996, 97).

Even though the importance of the existence of trust in channel relationships is evident, Weitz and Jap (1995, 309), point out, however, that problems may arise when the channel members deal with multiple suppliers. For example sharing confidential information with other channel members may be difficult, because the information may be revealed to competitors. Therefore, the authors conclude that the need to provide assortment could limit the degree to which trusting and committed relationships can be developed in conventional channels.

#### *Cooperation and Mutual Goals*

According to Morgan and Hunt (1994, 26), cooperation exists in a relationship when parties work together to achieve mutual goals. By working together as partners, channel partners can provide greatest value to customers at the lowest possible cost (Kumar, 1996, 93). Cooperation is particularly essential in marketing channels, because the parties need to work together to achieve the common goals of the channel, which cannot be achieved individually.

Cooperation is, thus, highly critical in pursuing the collective channel goals. Channel relationships are unlikely to succeed without cooperative decision-making and coordinated actions. Cooperation and coordination help companies to leverage limited resources through joint efforts with channel partners (Pelton et al. 2002). A cooperative channel climate is also reflected in the willingness of channel members to work together for a common goal.

Mutual goals can be defined as the degree to which partners share goals that can be accomplished only through joint action and the maintenance of the relationship. Mutual goals provide a strong reason for relationship continuance, influence performance satisfaction and the level of commitment to the relationship.



### *Dependence and Interdependence*

Many researchers have stated that dependency levels of individual parties in a relationship are important in understanding interorganizational cooperation (e.g. Anderson & Weitz, 1989; Anderson & Narus, 1990; Lusch & Brown, 1996). Because marketing channels are sets of interdependent organizations involved in the process of making a product or service available to the end user, dependence is an important concept in the channel context. A firm's dependence on a partner has been defined as the firm's need to maintain a relationship with that partner to achieve its goals. Hence, the inability of a firm to replace a partner is one measure of the firm's dependence. (Kumar et al. 1995, 349) Dependence is also increased when the outcomes of the relationship are important and highly valued, and the magnitude of the exchange is high. Additionally, dependence is increased when the outcomes from the relationship exceed the outcomes from the best alternative relationship. (Ganesan 1994, 4)

Total interdependence is the sum of both firm's dependences, which means that interdependence refers to the degree to which each channel member needs the other (Pelton et al. 2002, 279). As the total dependence increases, both channel members have greater stakes in the relationship. Firms involved in channels are interdependent, because they depend on each other for achieving their own distribution or marketing goals. Interdependence is, thus, inherent in distribution channels because it is necessary for one firm to rely on others to perform tasks on its behalf. (Mohr & Spekman 1994, 138)

Interdependence asymmetry, in turn, refers to the difference between the firm's dependence on its partner and the partner's dependence of the firm (Kumar et al. 1995, 349). This difference has also been referred as relative dependence (Anderson & Narus 1990). Symmetric interdependence exists when the firm and its partner are equally dependent on each other. (Kumar et al. 1995, 349) When interdependence is symmetric, each firm enjoys high power and the bonds between the firms should be reasonably strong (Frazier 1999, 227). The supplier or the distributor may, however, be able to dominate the relationship due to for example its size, past success, technological superiority, strength of product or service or environmental factors, such as limited channel intermediary alternatives or proven managerial performance (Karunaratna & Johnson, 1997, 25).



Channel research argues commonly that channel relationships characterized by asymmetric interdependence are more dysfunctional, less stable and less trusting than symmetric relationships (Anderson & Weitz 1989). On the other hand, relationships with greater total interdependence exhibit higher trust, stronger commitment, and lower conflict. Lusch and Brown (1996, 23) state also that the higher the interdependence, the more the firms rely on each other for both the performance and access to scarce resources and the temptation to act opportunistically is smaller.

### *Communication*

Mohr and Nevin (1990, 36) refer to communication as the glue that holds a distribution channel together. Communication has also been defined as the formal and informal sharing of meaningful information between channel partner companies (Anderson & Narus 1990, 44), and the key to the partnership's vitality (Mohr & Spekman 1994, 138).

Communication seems to play a major part in determining the quality of the channel relationship. The roles of communication are many as it can serve as the process by which persuasive information is transmitted, participative decision-making is fostered, channel programs are coordinated, power is exercised and commitment and loyalty are encouraged (Mohr & Nevin 1990). Mohr and Nevin (1990) argue also that communication difficulties are often the cause of channel problems, which could be resolved by developing appropriate communication strategies between manufacturers and resellers.

Also Anderson et al. (1987) noticed the importance of communication in the resource allocation decisions of channel members. Particularly two specific aspects of communication were significant in determining the degree to which the parties understand each other's goals and coordinate their efforts to achieve them; namely feedback and mutual participation in goal setting. Through participation, channel members internalise performance goals and are, thus, more strongly motivated to achieve those goals. Feedback, in turn, both positive and negative, provides information to the channel member about the supplier's perception of the channel member's performance.

Mohr and Spekman (1994) have examined three aspects of communication behavior, namely participation in goal setting and planning, communication quality and the



extent of information sharing between the partners. Joint participation refers to the extent to which partners can engage jointly in planning and goal setting, which helps in establishing mutual expectations and specifying cooperative efforts required. Communication quality, in turn, consists of the timeliness, accuracy, adequacy and completeness of information exchanged. Mohr and Spekman (1994) argue that honest and open lines of communication are needed to build close ties between channel partners. Information sharing, in turn, refers to the extent to which critical information is communicated between the trading partners. The channel partners should try to find a balance between sharing enough information for successful coordination of activities, but not so much information that one party's competitive viability could be damaged. Nevertheless, providing high measures of these aspects of communication should enhance commitment and motivation in the relationship. (Mohr & Spekman, 1994, 139)

To sum up, building cooperative and collaborative partnerships with channel partners seems to offer a good way to coordinate relationships and create mutual value and benefits for all the parties involved. Successful relationships with channel partners can also be a way to gain a competitive advantage in the competed global markets. Building successful partnerships seems to require the existence of, for example, commitment, trust, cooperation and effective communication. The parties should also be quite equal in dependence and share somewhat similar goals and values.

Since successful collaborative relationships are in a critical role in determining the perceived value of the resellers and distributors and enhancing their satisfaction and performance, it can be assumed that relationship related factors will have some affect on the motivation of channel partners as well.

## **2.7 Factors Influencing Motivation and Support Programs**

So far, the paper has discussed generally the two interrelated parts of marketing channel strategy, namely the design and the management of marketing channels. Particular attention was paid to the motivation of marketing channels, which was discussed from three different perspectives: the marketing channels literature, the agency theory and the relationship marketing literature.

It was recognized that motivation and support programs vary in different situations and, therefore, channel programs can be very different from each other, due to several



factors related to the needs of the supplier, as well as the partner. Shipley et al. (1989) argues that the kind of support offered to the channel partner varies with organizations and circumstances. According to Hardy & Magrath (1988, 156) markets vary substantially and middlemen's skills are different, which means that no general support mix can be applied across all markets. The authors suggest that to find the right mix of supports for channel intermediaries, a manufacturer should assess the respective roles of its channels and itself in market development activities.

The literature identifies several different factors that influence the channel design and channel management decisions. Mallen (1977) has distinguished between the distribution structure, the market, the environment, the resources and the marketing mix factors affecting channel strategies. According to Corey et al. (1989, 106), the distribution strategy is influenced by the nature of the product, the distribution costs, the market characteristics, the country and industry environment, the channel design factors, the behavior of buyers, and the business unit environment. Rosenbloom (1999, 212), on the other hand, argues that there are several factors that affect the chosen channel structure of a company and lists them the following way: market variables (market geography, market size, market density and market behavior), product variables (bulk and weight, perishability, unit value, degree of standardization, technical versus non-technical and newness), company variables (size, financial capacity, managerial expertise and objectives and strategies), intermediary variables (availability, cost and services), environmental variables (economic, sociocultural, competitive, technological and legal) and behavioral variables (conflict, power and communications).

Although the factors mentioned above have mostly been discussed in the literature as influencing the different channel structures, it can be argued that some of these factors can also directly affect the motivation of international channel partners and the structure of support programs. Therefore, the issues considered the most relevant for this particular study are discussed in the following section more closely. The factors are divided roughly under two categories: the ones related to the supplier company, and those related to the general marketing environment of the target market.



### *2.7.1 Supplier-Related Factors*

#### **Industry variables**

First of all, it can be assumed that the industry, in which the supplier is active in, has some implications for the motivation of channel members.

According to Porter (1980), the key aspect of the firm's environment is the industry or industries in which it operates. Industry structure has a strong effect on determining the competitive rules of the game, as well as the strategies potentially available to a firm. Competition in the industry is rooted in its underlying economic structure and it depends on five basic competitive forces, namely, entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. All five forces jointly determine the intensity of the competition and the profitability of the industry, and the intensity of these forces varies between industries. (Porter 1980, 3)

Porter (1980, 189) states also that industry environments differ most strongly in their fundamental strategic implications along a number of key dimensions: industry concentration, state of industry maturity and exposure to international competition. Industries can be divided, for example, into fragmented, emerging, mature and declining industries based on the state of the industry. Global industries, then again, are the most exposed to international competition.

Hardy and Magrath (1988, 16) state that there are differences among industries in the use of different kinds of marketing channels; in other words, the channel structures vary from industry to industry. Some industries rely more heavily on indirect distribution, when the motivation of channel members is clearly more important than in direct channels, in which the company's own sales force is expected to be more motivated by nature to push the company's products and services.

The industries differ, thus, on several dimensions, which can have effects also on the motivation of channel partners. It can be assumed, for example, that when the competition in the industry is fierce, that is, there are many different suppliers fighting for the resources of the same channel partners, the partners would need more motivation in general, and the motivation strategies should be perhaps more effective than in industries, in which the channel members have not so much freedom of choice



between different suppliers. The same will most likely apply, when there is a threat of new entrants or substituting products in the industry.

When the industry competes on a global scale, the channel management and motivation are more challenging tasks than in domestic circumstances. Due to long distances, controlling the channel is more difficult and the motivation programs become, as a consequence, more important. In global industries, the different environmental conditions have to also be taken into account when designing motivation programs for channel members. The effectiveness of support programs can also vary drastically from country to country.

The software industry is a relatively new industry area and very global in nature. The industry can also be characterized by, for example, rapid growth rates, high levels of technological change and innovation, as well as by fierce competition. One of the features of the sector is high uncertainty. (Rajala et al. 2001, Toivanen 2000) For example these characteristics make the software industry to some extent different from some other industrial sectors, which could mean that a channel support program that is effective, for example, in the clothing sector, may not be as effective among the marketing channel members of a software supplier. Software industry as a complex, technical, fast moving and innovative industry might have different requirements for motivation than more stable traditional industries. For example, technical support and training may play a much bigger role than in some other industries. Also, in a fiercely competed sector such as software, the need for motivating channel members can in general be higher. As a consequence, it can be assumed that different motivation strategies may have to be used in different industries. Also the need for channel partner motivation can alter in different industries.

### **Company variables**

There are also some company specific factors, which may affect the motivation of international channel partners. Rosenbloom (1999) has identified the size of the company, the financial capacity, the managerial expertise and the objectives and strategies of the firm as important company specific variables affecting channel design. According to Luostarinen (1970), some of the important producer specific factors include the structure of the firm, the characteristics of the firm, the firm's mission,



objectives, and overall strategy, decision related factors and global strategy considerations.

The structure of the firm, for example the size, can determine that what kind of resources does the company have for motivating its channel partners and, thus, what kind of motivational efforts can be used. A strong financial position and a strong marketing work force allow an organization to engage in direct marketing, whereas a weaker financial position may require the use of middlemen. A strong financial position enables a firm to better control and direct the channels in terms of, for example, training programs, cooperative allowances and better credit terms (Mallen 1977, 184). Thus, resources can affect both the need for motivation and the availability of different motivation tactics. Rosenbloom (1999, 217) states also that larger firms have generally more flexibility in choosing channel structures and developing the channels than smaller firms.

Global strategy considerations of the company have been mentioned as an important influencing factor for channel choices (Gabrielsson 1999, 45). As was recognized, during the last ten years, the role of relatively small companies, operating particularly in the high technology sector, has grown substantially in the Finnish economy. Often, the only way that these companies can compete against large multinationals is to create global presence from the beginning of their operations. For small global companies who have only limited financial and human resources, indirect channels of distribution may offer the most viable way to achieve market coverage. Nevertheless, due to their small size and the distant location, these companies could experience difficulties in exerting any real control in the indirect channels. All the same, they have to somehow ensure that the channels are operating according to their objectives. Effective motivation of international channel partners is, therefore, outmost important in the context of born global companies.

### **Channel structure**

Channel design decisions were discussed above in general as part of channel strategy. It was pointed out that channel design could have important implications also for motivating channel partners. According to Cateora and Graham (1999), the level of distribution and the importance of individual middleman to the company determine the activities undertaken to keep the channel motivated.



Rosenbloom (1999, 189), for example, points out that the motivation tactics should be varied for different channel members. To choose the most effective from the wide range of motivation tactics available, the channel manager can apply a distribution portfolio analysis, which is a method of categorizing all the company's channel structures and channel partners. Distributors might be highly motivated by, for example, higher discounts, whereas resellers may appreciate some other motivational tactics more, such as technical training or promotional support. Rosenbloom (1999) argues that the essential idea is that different types and sizes of channel members participating in different channel structures may respond differently to various motivation strategies. Therefore, some effort to group the channel members and structures into a portfolio before launching a motivation program may prove to be useful when targeting the most appropriate motivation strategies. (Rosenbloom 1999, 189)

The channel design involved decisions concerning the number of levels in the channel, number of channel members at each level, number of channels, and the selection of channel members and the allocation of tasks.

Firstly, the number of levels in the channel, that is whether a direct or indirect approach is used, has strong implications for the need of motivation in the channel. It is clear that members in an indirect channel, that is, when there are more levels involved in the channel, need more motivation than a company's own sales force, which already knows the products of the company and is paid exactly for selling them. Therefore, the supplier's own sales people are usually more highly motivated and more knowledgeable about a product and a specific brand. (Mallen 1977, 80)

Channel intermediaries have, on the other hand, other products to sell, and consequently they are not necessarily always motivated towards the products of a particular supplier. In indirect distribution, the supplier must, thus, compete for the middlemen's effort with other products they are carrying. Additionally, when own sales people are used, the control of the channel is also better achieved, and therefore the need for motivation is not as substantial.

Secondly, the number of channel members at each channel level will also have its effects on motivation. If the channel is exclusive, that is, there is only one channel middleman at each level; the channel is less competed and more secure, which



maximizes the channel goodwill and control, and consequently improves the motivation of the channel members. It can also be argued that it is easier to have satisfactory relationships with a few middlemen than with many in a given area. Additionally, the selected members are often provided with higher profits. (Mallen 1977, 247)

Conversely, when nonexclusive channels are used, there is more competition in the channel. If the density in the channel is high; that is, there too many middlemen in a given territory, the margins and the turnover may be lower, as the overlap can result in price cutting at the consumer level. This has naturally a negative impact on the partner's motivation towards the particular product line. (Hardy & Magrath 1988, 522) Therefore, the choice of the motivation tactics in nonexclusive channels is perhaps a more critical decision than in exclusive channels. Generally, exclusive or selective structures seem, however, more beneficial considering the motivation of the channel middlemen.

The number of the different channels used should also be considered in terms of its effect on motivation. The decision to use a single channel means usually that the channel is easier to control. Also, a single-channel policy tends to reduce channel conflict. Alternatively, when multiple channels are used, the control of the channel is to some extent lost. Particularly in dual channels, the possibility for conflict increases, which can be harmful considering the channel partner motivation towards the supplier. Hybrid channels are more partnership types of arrangements grounded on cooperation, and therefore, usually less conflict exists. Hybrid systems also allow the utilization of more customized approaches if necessary. However, also hybrid channels can create channel conflicts as the competition for customers and revenues increases. Therefore, it seems that in terms of motivating the channel members, the use of single channels is in general more reasonable than using multiple channels. (Gabrielsson, 1999, 38-39)

When the different middlemen types are considered, it should be noted first that different members, for example resellers and distributors, perform different functions in the channel. Therefore, it can be assumed that their needs for motivation tactics can be very different. Value added resellers, who may be performing technical services to end customer, would most likely appreciate technical training higher than distributors. Distributors, who normally act as intermediaries between the supplier and the reseller, might, on the other hand, appreciate fast order processing higher than resellers.



Additionally, the fact how many functions the channel members perform on behalf of the supplier, affects the level of control the supplier has over the channel. The more functions the channel middlemen have, the less control is at the hands of the supplier and the more important is the effective motivation of channel middlemen (Mallen 1977, 247). Also, the functions that the middlemen are expected to perform affect their expenses (Hardy & Magrath 1988, 521-522). Higher expenses will probably result in the need for certain kind of motivation tactics, for example financial assistance.

All in all, the channel design decisions seem to have strong effects on the motivation of channel members.

### **Product variables**

Product-related factors seem also important in influencing the channel strategies of companies. Corey et al (1989, 106) include the product life cycle stage, product customization requirements and after sale service needs as important product related factors. Rosenbloom (1999, 215) discusses the bulk and weight, perishability, unit value, degree of standardization, technicality, and the newness of the product influencing channel decisions. Gabrielsson (1999), then again, states that in the broad sense, the product factors consist of technology-related, strategic and physical factors.

Product factors determine what the user wants from the product in terms of technical support, supply availability and service, for example. Under the conditions of customized and/or highly technical products with high unit price, the suppliers tend to build direct channels. (Corey et al. 1989, 59) Also Gabrielsson (1999, 106) states that higher technical complexity, technical change, service requirements, customization level and product margin favor higher integration, that is, direct marketing channel approach.

However, these kinds of products may under some circumstances have to be delivered through indirect channels, due to, for example, limited resources to provide the required services on global markets. If this is the case, it can be argued that effective motivation of the channel members is even more important. When the product has, for example high service requirements, due to high technical complexity, the selling of the product requires substantial efforts from the part of channel members. The channel members have, in this case, a critical role in delivering the product and the related services to the end customers, and therefore, effective motivation is required. On the



other hand, also specific types of channel support programs may have to be used, such as technical training.

Also physical factors of the product can have effects on the motivation of the channel members. To illustrate, software is not a physical product, but most often licensable know-how, which can be delivered to customers, for example, in a digital format. Therefore, the requirement for channel members to carry inventories is not as critical in the software industry than, for example, in the hardware sector, which means that the motivation tactic based on lowering the inventory costs of the channel is not as effective.

There is also research available by Gardner et al. (2000) on how marketing strategies differ particularly for high technology products. The authors refer to the contingency theory, which suggests that there is no universal set of strategies, which would be optimal for all businesses or firms. Therefore, different strategies should be designed for different environmental contexts. (Gardner et al. 2000, 1058)

Gardner et al. (2000) identified several market and industry characteristics of high vs. low technology products, which had an impact on marketing strategies of high technology products. The market environment for high technology products was identified, for instance, with earlier stages of the industry life cycle, greater degree of turbulence, higher product differentiation, higher market growth rate, shorter expected life cycle, easier entry to the market and more diverse suppliers. These characteristics resulted in, for example, increased number of sales people and channel intermediaries, more R&D investment, increased importance of product warranties and a relatively higher price. All in all, the authors concluded that the market and industry environmental characteristics are different for low and high technology products, which results also in different marketing strategies.

Product life cycle (PLC) concept is also important in managing channels of distribution. PLC is a model for describing the stages through which a product passes (Rosenbloom 1999, 321). As the product category grows and the competitive conditions change, the channel tasks change, the balance of power changes and the division of margins changes. (Hardy & Magrath 1988, 146)

According to the PLC model, a product typically follows a curve, which can be divided into four different stages: introduction, growth, maturity and decline.



During the introductory stage, the product begins to gain a foothold in the market and the growth is still rather slow. Strong promotional efforts are needed to launch the product, which may involve heavy advertising and other promotion expenses. It is also important that the channel members are able to provide adequate market coverage for the product. (Rosenbloom 1999, 323)

During the introductory stage, the market is composed of innovators and early adopters, who have heavy support needs (Moore, 1995, 15-16). At this stage, the channel strategy should, thus, be quite selective (Gabrielsson 1999, 97). It can also be assumed that during the introductory stage, the need for motivating channel members is, thus, rather high. After all, strong promotion support, as well as technical support is needed, and adequate market coverage and product supply are essential. The effective motivation tactics may include, for example, promotion assistance, co-op advertising and technical training. Also, the role of two-way communication in the channel is critical.

The growth stage is marked by rapid market acceptance and higher profits, and the market consists of early majority customers. There are two important challenges during this phase: ensuring the product availability provided by the market and monitoring the channel members' actions with respect to competitive products. The problem of product availability is particularly important for mass-market products, and the monitoring of the product flows and the inventory levels of channel members becomes essential. Adding new channels might be necessary too.

Monitoring the channel members' actions relative to the competitive products is important, because high sales most likely attract competitors. Quite often, the competitors' products are also sold and promoted by the channel members, and the supplier has to compete for the channel members' support to sustain the growth of its products. In this situation, the various programs for supporting the channel members' needs play an important role. Therefore, during the growth stage, the supplier who has a carefully planned support program for channel members has the edge over the competitors, who need the support of the same channel, but lack the program. (Rosenbloom 1999, 325-326)

Maturity is characterized by decreasing rate of growth in sales as the market becomes saturated. The customer group, late majority, is more price-sensitive and the level of



value-added required from the channel is lower (Moore 1995, 17). At this stage, extra emphasis should be put on making sure that the product is more desirable for channel members. In the face of slower growth, the sales and will decline for many channel members, who may, because of this, reduce or totally stop ordering the product. To make the product more attractive to channel members, the company can increase the profit potential of the product to the channel and reduce the risks associated with handling the product. This can be done, for example, by giving different kinds of discounts, advertising allowances, and more liberal return policies. Additionally, it may be necessary to investigate new channel structures to forestall the decline stage and possibly create a new growth stage. (Rosenbloom 1999, 326-327)

Finally, decline occurs when the sales of the product decrease and profits decline rapidly to zero. During this stage, decisions should be made concerning the possibility to phase out some high-cost and low-volume channels, which further erode the profits. Also, the company should consider whether dropping the product would cause an adverse reaction on the part of existing channels. It could be that the elimination of the product forces some customers to turn to another supplier, shifting the buying of other profitable product there as well. (Rosenbloom 1999, 328) During this stage, it can be assumed that the motivation of channel partners is to a large extent taking care of the relationship between the channel members. If the relationship is worth preserving, issues such as commitment and trust may be very important in managing possible conflict situations.

It should be noted that not all products pass through the life cycle as such; there are many exceptions and variations, depending on the product and industry in question. Stages may also not be as distinctive as described above. Anyhow, it can be argued that the PLC model has some implications also for the motivating of international channel partners of suppliers. Motivation of channel partners seems important in all stages of the product life cycle, particularly during the introduction and the maturity phases. The forms of required support can also be very different at different stages. Also, as a product moves to maturity, distribution intensity tends to build up. Therefore, companies wanting to hold or improve their market share must often be innovative and competitive in their channel supports (Hardy & Magrath 1988, 158).



### *2.7.2 Marketing Environment Factors*

Besides the issues discussed above associated mostly with the supplier company, some factors related to the marketing environment, or to some local conditions of channel partners exist as well, which may influence the motivation management. According to Rosenbloom (1999, 80), international marketing channel members exist in a complex environment that is continually changing. To be able to manage the marketing channels successfully, the supplier company has to be aware of the influence of the environment on channel motivation (Rosenbloom 1999, 80).

It was concluded earlier that motivation programs are needed to attract and retain effective distributors and to induce them to allocate adequate commitment and resources to the supplier's objectives. However, for example Shipley et al. (1989) pointed out that the motivation task is not easy, particularly in the foreign distribution channel context, because the parties are separated by geographical, social and cultural distance, which can harm, for example, the flow of information between the parties.

Pelton et al. (2002, 325) suggest that building different types of motivation packages to different partners is essential. Different partners seek different benefits and even the same partners will seek different benefits at different times. Thus, channel members have different needs and priorities, they respond to different aspects of what the suppliers offer them, and can change their behavior and loyalties over time. Therefore, it was suggested by, for example, Rosenbloom (1999) and Hardy and Magrath (1988) that manufacturers should, first of all, find out what their partners really need, instead of designing programs based solely on past experience or competitors' programs.

The needs of channel partners can differ for various reasons, one of the most important being the fact that channel partners have different roles in the channel, which was discussed in the previous section concerning the influence of a company's channel structure on motivation (see 2.7.1). Other influencing factors may include the culture of the partner's home country, the characteristics of a particular market, or issues related more directly to the partner company, such as the length of the relationship between the channel partner and the supplier. Additionally, channel members may be affected by many other environmental factors, such as business cycles, government regulations, social developments and technological changes. Transportation and



communication infrastructures, and the channel infrastructure in the partner's country can also have implications for channel motivation practices.

Rajala et al. (2001) have discussed the effects of market environment in the context of software businesses, and concluded that, for example, competitors, innovation diffusion, network effects, dominant platforms, legal aspects and political values of customers might affect the business models of software businesses. The technological infrastructure of a software vendor's operating environment is particularly important for creating successful business models in the software industry.

There may exist, thus, several different marketing environment factors that can have effects on the motivation of international channel partners. The empirical analysis and the interviews of channel partners can reveal more information concerning these factors. However, at this point, the emphasis is broadly on four aspects, which may affect the effectiveness of different motivation methods; namely the culture of the channel partner's country, the characteristics of the target market, the channel infrastructure of the partner's country and the duration of the channel relationship between the supplier and the partner.

## **Culture**

National culture has become an important concept in the international business literature. Several authors claim that cultural differences have an impact also on marketing channels as they exist and operate in different countries (e.g. Kale & McIntyre 1991, Conway & Swift 2000, Rosenbloom 1990, Mehta et al. 2003). Culture shapes values, assumptions and behavior of individuals and organizations (Cateora & Graham 1999). Rosenbloom (1990, 53) states that the motivation task is even more important, but also more challenging in the international context, because different environment, culture and customs affect the channel relationships.

Culture has been defined by several different ways. Pelton et al. (2002, 197) define it as the overall shared meaning of individuals' beliefs, values and customs. Culture helps members of society to define the appropriateness of their behaviors. According to Pelton et al. (2002), culture has four basic functions in the channel context. It provides a way to classify the partner's behaviors and events, it provides appropriate standards of behavior among exchange partners, it prioritizes standards of behavior, and it legitimizes the use of certain exchange behaviors, while condemning the use of



others. Pelton et al. (2002) also suggest that by being sensitive to socially- and culturally-based differences in the international market place, the partners have better chances to build long-term relationships.

Kale and McIntyre (1991) have studied how channel relationships are likely to differ in different cultures. Their research is based on the four cultural dimensions developed by Geert Hofstede, namely individualism, power distance, uncertainty avoidance and masculinity. The purpose of the study is to consider how companies are likely to initiate, implement and review channel relationships based on the society's position on the four cultural dimensions.

Kale and McIntyre (1991) propose, for instance, that companies in high power distance countries depend on the relatively more powerful channel members for setting operating procedures and policies for the channel, whereas companies in small power distance countries will communicate more often, emphasize face-to-face communication and engage in consultative decision-making. Individualism of the country plays a role as well through its impact on the orientation towards personal or group interests. Firms in high individualism countries may seek arrangements that foster their own self-interest, as firms in high collectivism countries focus on their in-groups, which could comprise of the entire distribution channel. The higher collectivism may also lead to the need of the supplier to emphasize the relational elements of the partnership more instead of strict economic dimensions (Roath et al. 2002, 10). In high masculinity countries, the channel relationships are relatively low in cooperation, whereas channel climate in feminine cultures displays more likely greater harmony, higher cooperation and higher commitment towards building strong relationships between channel members. (Kale & McIntyre 1991, 39-40)

Bandyopadhyay et al. (1994) have, on the other hand, studied cross-cultural differences in channel communication in the US and in India. They found that the cultural environment affected significantly the nature of supplier-dealer communication. For example, the supplier's home culture may prefer arm's-length relationships based on legal contracts, whereas the intermediary's culture could, in turn, emphasize trust and sociability as the basis of business relationship. When conducting business with foreign channel intermediaries, these kinds of differences should be taken into account. The authors concluded, however, that channel relationships characterized by long-term orientation, high interdependence and joint



planning efforts tend to neutralize the effects of cultural differences on channel communications.

Conway & Swift (2000), then again, emphasize the role of psychic distance in determining the success of relationship marketing strategy. They define psychic distance as the extent to which the norms and values of the companies differ because of their distinctive national characteristics. The greater the distance, the harder it is to achieve and more resource intensive will be the process of relationship development. Therefore, to be able to develop relationships successfully, it is necessary to understand the values, expectations and motivations of all the parties involved. According to Conway and Swift (2000), the basis for successful inter-cultural business relationships is strongly dependent on understanding cultural backgrounds.

All in all, there seems to be strong support for the idea that national cultures have effects on channel relationships and motivation. The different environment, culture and customs seem to influence the channel relationships, and companies in different cultures will most likely value the different motivation programs in a different way.

### **Market-related factors**

Besides the culture, also other factors related to the particular target market should be considered, when discussing the motivation of international channel partners. According to Rosenbloom (1999, 213), four aspects are particularly important in influencing channel decisions.

The first variable, market geography, refers to the geographical size of markets, and their physical location and distance from the supplier. It can be argued that the greater the distance between the supplier and its markets, the higher the probability of using indirect channel middlemen, and consequently, the more important is their effective motivation. The number of customers making up a market determines the market size; that is, the larger the number of customers in the market, the larger is the market size. Again, when the size of the market is very large, the use of indirect channel middlemen is more likely needed.

The number of customers per a certain area determines the density of the market. If the market consists of a limited number of large buyers, it is said to be concentrated, whereas markets that are composed of a large number of small buyers are described



fragmented (Corey et al. 1989, 47). The less concentrated the market, the more difficult and expensive is distribution and more likely that channel intermediaries will be used. Market behavior, then again, refers to four types of buying behavior: how, when and where customers buy, and who does the buying. (Rosenbloom 1999, 213-214; Mallen 1977, 168)

All in all, the characteristics of the target market determine how important is the role of indirect marketing channels on the market, and consequently, how important is their effective motivation.

### **Channel structure in the partner's country**

The availability of different channel structures in a target market, as well as the costs and the services offered by the channel middlemen, may also influence the motivation strategy. This is particularly important, when serving international markets.

The availability of appropriate channels is clearly a determinant for channel motivation decisions. If, for instance, only resellers are available on a particular market, the motivation efforts used will be different than in some other market using other kinds of channel structures. The difficulty to enter a certain marketing channel may also force the company to use a different kind of channel structure than perhaps intended (Gabrielsson 1999, 47). The cost of using intermediaries is also a consideration when choosing the channel structure and the motivation tactics. If the cost of using a certain type of intermediary, for example a distributor, is too high, their use will most likely be minimized. The services offered by particular intermediaries need to be also considered to see which ones can perform them the most effectively at the lowest cost. (Rosenbloom 1999, 218)

All in all, it seems important that suppliers understand the peculiarities of distributive structures of their target markets, and can also anticipate possible changes in structures to be able to design their motivation efforts effectively (Mallen 1977, 177).

### **Partner-specific factors**

Some issues related directly to the characteristics of a particular channel partner, or the relationship between the supplier and the partner, can also affect the motivation strategy. Issues such as the size of the partner company, or its dependence of the



supplier or from some other supplier could, for instance, affect the effectiveness or the availability of different motivation tactics.

Based on literature, it can also be assumed that the length of the relationship endurance between the supplier and the channel partner can affect the motivation of channel partners. The stages of relationship development have been discussed quite widely in the relationship marketing literature. For example Dwyer et al. (1987, 15) argue that relationships evolve through five general phases, namely awareness, exploration, expansion, commitment and dissolution.

Dwyer et al. (1987) argue that as the relationship between the parties develops over time and as the partners gain experience and learn to trust each other, they will gradually increase their commitment through relationship-specific investments in products, processes or people dedicated to the relationship. Also Anderson & Weitz (1989) emphasize the fact that older relationships are more often based on trust and good working relationship between the parties. They argue that the age of the relationship is critical in determining the continuity of the relationship, as older relationships have survived the "shakeout" periods already. Ganesan (1994) supports this view, since he states that a reseller's experience with a supplier is positively related to the perception of the supplier's trustworthiness.

Thus, it can be assumed that more established relationships would rely more on relationship variables such as trust and commitment. Younger channel partners, in turn, may not be able to do this, at least to the same extent as older partners, which could mean that the more concrete aspects of the relationship, such as the product offering of the supplier, may be more important for them.

The length of the channel relationship can also be considered from the agency theory perspective. Eisenhardt (1989a, 63), for instance, proposes that the length of the relationship is positively related to behavior-based contracts, thus the longer the relationship, the more the partners would appreciate behavior-based incentives. In shorter relationships, the information asymmetry between the parties could be greater, which would make the output-based contract more attractive. Also Lassar & Kerr (1996) support this view in their article.

It should also be noted, that according to Ganesan (1994), there is a difference between long-term orientation towards a specific vendor and the endurance of the relationship.



This means that a partner could have been in a channel relationship with a particular vendor for many years, but is not necessarily long-term oriented, which refers to focusing also on the future outcomes of the relationship. Therefore, considering only the length of the relationship may not tell much about the long-term orientation of the channel partner, which seems, according to Ganesan, to be a more important indicator of the nature of the channel relationship.

## **2.8 Preliminary Theoretical Framework**

The purpose of the literature review discussed in this chapter was to frame the issues that need to be considered when trying to motivate international channel partners to sell and promote the products and services of software suppliers.

First, it was noticed that the motivation of international channel partners is extremely important for relatively small Finnish software companies, many of whom may have to be present at global markets fast to be able to compete with larger companies. Because of their limited resources, these companies have to rely on indirect channels of distribution to achieve the desired market coverage for example, but the small size, and the distance from the markets make it difficult to exert control in the channel. Therefore, effective motivation of international channel partners was assumed to be very important in this context.

It was also concluded that both the design and the management of the international channels have to be taken into account when discussing the motivation of partners. When designing the channel, the supplier has to consider, for example, the appropriate channel structure, the channel members that are to be included in the channel, and the tasks that they are to be performing.

Motivating channel partners is one of the most critical tasks of channel management. To be able to motivate the channel effectively, the suppliers should first be familiar with the needs and the problems of the channel, after which appropriate support programs and leadership can be provided. The support programs can include both financial and non-financial motivators. The main financial motivator seems to be the profit margins earned from the sales of the supplier's products and services. Non-financial motivators consist of, for example, training, promotional assistance, and other kinds of supports for the channel partners.



Also in terms of the agency theory, the motivators can basically be divided into two alternatives: to offering the partners financial incentives based solely on outcomes, or to affect the partner's behavior by offering different kinds of supports, such as promotional assistance or training, but simultaneously compose certain restrictions on the partner's behavior. The channel program can, thus, emphasize either the behavior, or the performance of the channel partner, depending on which alternative is the most efficient.

The relationship marketing approach, on the other hand, highlighted the importance of building cooperative and collaborative partnerships with channel partners when pursuing to encourage their motivation. Successful mutually beneficial relationships seemed to require the existence of, for example, commitment, trust, cooperation, communication, shared goals and values, as well as symmetric interdependence.

Besides adequate profitability, different support forms and collaborative relationship that seem important in creating motivation, it was also pointed out that particularly in the high tech segment of the industrial market, also product related factors should be taken into account when considering motivation in the supplier-reseller relationship. In high tech segments, the products are often differentiated and serve well-defined buyer needs. In this environment, issues such as high quality, competitiveness, innovativeness and product salability are important in determining reseller commitment and, in turn, the motivation toward the supplier's product line.

Along product related factors, also physical distribution seemed to be an important part of creating motivation among channel partners. For example effective order processing and fast and reliable delivery can significantly impact the value and financial performance of the resellers and distributors, which may also affect positively their motivation to put efforts on a certain supplier's product line.

It was also recognized that the motivation and the support programs vary in different situations. The paper discussed a set of factors related to the supplier and, on the other hand, the marketing environment of the partner's country that seemed to influence the channel design and management decisions.

The supplier related factors included the industry, in which the supplier is operating and the characteristics of the supplier company and its products and services. Important issues related the industry included, for example, the competitive



environment, the channel structure in the industry and the degree of globalization. Supplier related factors included, for instance, the financial and managerial resources of the company, the age of the firm and the channel structure of the company. Factors related to the supplier's product that need attention are, for example, the product life cycle, the technicality of the product, as well as the product's service requirements.

The marketing environment factors discussed included the culture of the partner's home country, the target market-related factors, the channel structure in the partner's country, as well some aspects related to the particular channel member-supplier relationship, such as the length of the relationship between the parties. Also a set of other influencing factors was recognized, such as the technological environment and the economic conditions of the partner's country.

The motivation of channel partners is, thus, a many-sided phenomenon, which needs to be considered from several different perspectives, before a more holistic picture can be provided. In the next section, the critical issues in channel motivation are summed up from three different angels; namely the perspectives of the channel partner, the supplier and the marketing environment.

#### *2.8.1 Needs of Channel Partners*

The channel support program seems to be the key in effective motivation, and it has to take into account the needs of the partners, which may, however, vary from each other. Channel programs can, therefore, be very different for different channel partners. From the viewpoint of the channel partner, it can be concluded that their needs in terms of motivation include the following issues:

- Financial profitability
- Support factors
- Relationship with the supplier
- Product offering
- Distribution policy



### 2.8.2 *Supplier-Related Factors*

Besides the needs of its channel partners, the supplier has to also take into account its own goals and needs for the channel program, in terms of cost and profit considerations, for instance. The suppliers operate under different conditions and in different environments, which results also in different needs concerning the channel program that is offered.

Several factors seemed to influence the channel motivation decisions of supplier companies. The study at hand focuses on the following aspects that the supplier should consider:

- Industry
- Company characteristics
- Product factors

### 2.8.3 *Marketing Environment Factors*

It was also noticed that international marketing channel members exist in a complex environment that is continually changing, which needs to be considered to be able to manage and motivate marketing channel members successfully.

The needs of channel partners can differ for various reasons, for example because of the culture, the market structure, or the channel infrastructure of the partner's home country, as well as the length of the relationship between the channel partner and the supplier. Along these issues, there may be several other local factors that could affect the decision of how certain channel partners should be motivated, such as business cycles, government regulations, social developments and technological changes, transportation and communication infrastructures in the partner's country.

For the purposes of this study, the different marketing environment factors are divided into:

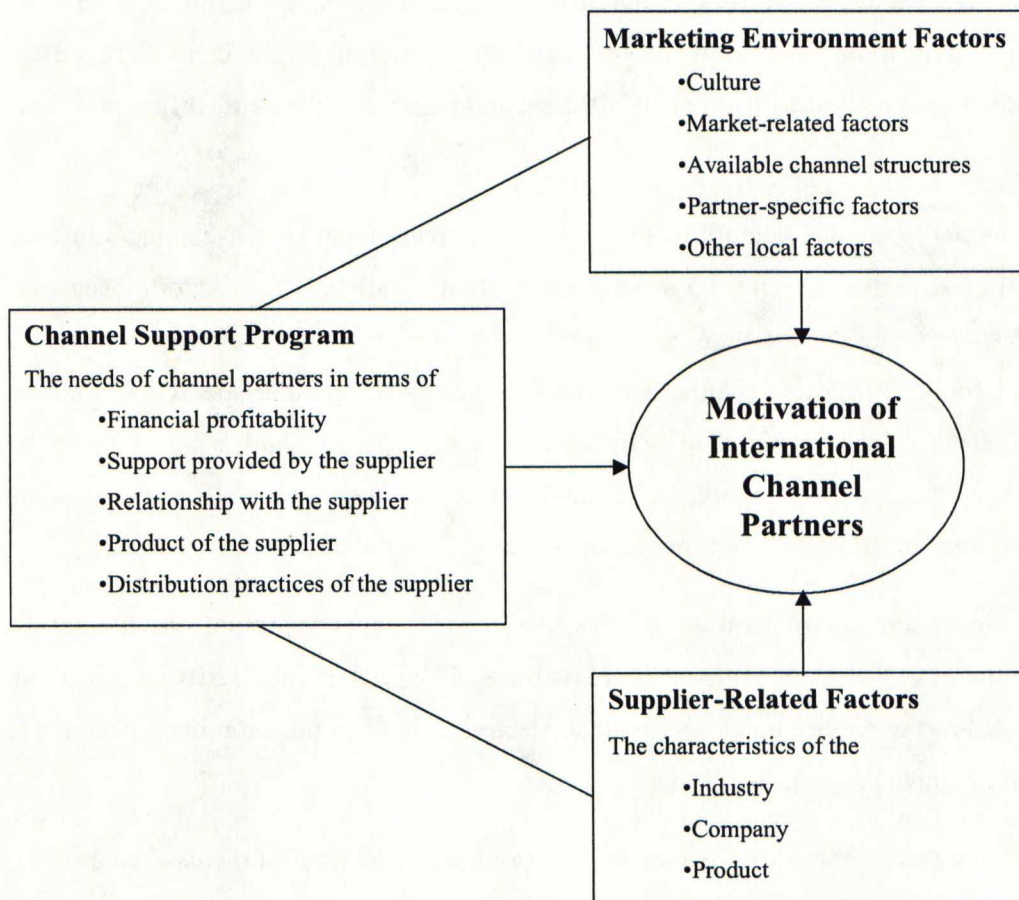
- Culture of the partner's country
- Market-related factors
- Channel structure of the partner's country



- Other local factors
- Partner-specific factors

All in all, when combining the perspectives of the channel partners, the supplier and the environment, a following framework of critical issues in international channel partner motivation can be pictured. The framework presented in the next figure is preliminary at this point as its applicability can be supported only after empirical examination.

*Figure 7: The Preliminary Framework of Channel Partner Motivation*



The framework identifies, first of all, that the channel program should take into account the needs of the channel partners. Thus, to motivate its channel members, the supplier should, besides providing adequate profit margins, also invest in support



mechanisms such as training and promotional assistance, and build and maintain collaborative relationships with its channel partners, which are characterized by for, example, trust, commitment and effective communication. Additionally, the supplier should make sure that its product and physical distribution factors are continuously improved to meet the needs of channel partners and to increase the partner perceived value of the channel relationship.

The needs of the channel partners, as well as the needs of the suppliers are, however, different from each other. The factors that influence the suppliers' decision of how to approach the problem of motivation can be divided into issues related to the industry, the company, including its channel structure, and the product of the supplier. These factors have to be considered before a motivation program can be created, because the motivation needs are different in different industries dealing with different kinds of products and services.

Additionally, certain factors in the marketing environment of the channels influence the motivation needs and the motivation methods available. The factors discussed in this study include the cultural environment, the characteristics of the target market, the availability of different channel structures in the market, partner-specific factors, such the length of the relationship between the channel parties, and a set of other local factors, such as the technological and legal environment, as well as the economic conditions of the channel partner's home country.

The main tool for motivation is, thus, the channel support program of the software supplier, but the needs of the channel partners, the needs and the goals of the supplier, as well as the requirements set by the environment have to be taken into account when developing the support programs.

The theoretical framework is now being examined in the light of the case analysis. The methodology of the research is, however, discussed first.



### **3 METHODOLOGY**

The study at hand collects empirical evidence in the form of a case study based on the theoretical framework developed earlier. As was discussed in the introduction, case studies benefit from the earlier development of theoretical propositions to guide the research. Yin (2003, 29), for example, emphasizes that theory development is an essential step prior to the collection of actual case study data.

Before presenting the empirical analysis, the case methodology, the reasons for choosing the particular research method, as well as the validity and the reliability of the study are discussed.

#### **3.1 The Choice of the Case Study Methodology**

According to Hartley (1994, 209), a case study research is a detailed investigation collected over a period of time of one or more organizations with a view to providing an analysis of the context and processes involved in the phenomenon under study. Yin (2003, 13) states that “a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Also Eisenhardt (1989b, 534) argues that a case study is a research strategy that emphasizes understanding the dynamics present within single settings.

The research problem of this study was described as how can Finnish software suppliers be more effective in motivating their international channel partners to sell and promote their products and services. The aim is, thus, to find out the issues that are the most important in creating and maintaining motivation among international channel partners of software companies. Yin (2003) has argued that case studies are the best strategy when “how” or “why” questions are the target of the research, when the investigator has little control over the events, and when the focus is on a contemporary phenomenon with a real life context. According to Yin, case study method allows the researcher to retain the holistic and meaningful features of real-life events. Therefore, motivation of international channel partners in the software industry seems as a good research target to apply the case study method.

Eisenhardt (1989b, 548) has also discussed situations in which theory building from case research is appropriate and sums up that the approach is suitable in the early



stages of research on a topic, or to provide new perspectives to already researched topics. The software industry, being a relatively new industry area, has not been widely researched. Channel relationships, particularly in the software industry, have not been studied very extensively either, and there is little empirical evidence available on the topic. Therefore, the case study method applied in this paper should be appropriate to provide new information concerning channel relationships particularly in the software industry.

There are also some problems with the case methodology, including for example too complex or narrow theories, lack of rigor in research, insufficient basis for scientific generalization, and massive and tiresome reports (Eisenhardt 1989b; Yin 2003). These problems can, however, be avoided by working hard to overcome the problems and by limiting the generalizations to the theoretical propositions (Yin, 2003).

According to Eisenhardt (1989b), case studies combine different data collection methods, such as interviews, questionnaires and observations. The evidence can, therefore, be qualitative, quantitative or both. Case studies can also be used to achieve different goals, such as to provide description, test theory or generate theory. (Eisenhardt 1989b, 534-535)

The study at hand uses also multiple sources of evidence. The case analysis is based, on one hand, on interviews, informal discussions and email contacts with the case company representatives, as well as company confidential documents and public marketing material. On the other hand, the empirical analysis is widened by conducting telephone interviews and surveys among the case company's channel partners. Also, direct observation was applied as the author was employed part-time in the case company during the data collection phase. According to Yin (2003, 94), participant observation provides an opportunity to perceive reality from the viewpoint of someone inside the case study, which is invaluable in producing an accurate picture of the case study phenomenon. On the other hand, direct participation can also be a disadvantage, as the objectivity of the research may be affected. Nevertheless, the problems of construct validity can be better addressed, when multiple sources of evidence are used (Yin 2003, 99).

A primary difference in designing case studies is between single- and multiple-case designs (Yin, 2003, 39). According to Yin (2003), single case studies are more



vulnerable and the benefits from having two or more cases may be substantial. For example, the analytic conclusions from two or more cases will be more powerful than those coming from a single case alone. On the other hand, Yin also argues that there are certain circumstances under which single case studies are justified: when the case represents a) a critical test of existing theory, b) a rare or unique circumstance, c) when the case is a representative or typical case, or when the case serves a d) revelatory or e) longitudinal purpose (Yin, 2003, 45-46).

The research at hand is a single case study. The main reason for choosing a single case study as the research methodology is the fact that the perspectives of both parties of the channel relationship; the supplier and the channel middleman, were considered relevant in partner motivation, and, thus, both perspectives were included in the study. To conduct a multiple case study involving many supplier companies and their numerous channel middlemen would have required resources that are not easily available for a Master's Thesis project, in which also the time available is restricted. Additionally, the decision to choose particularly Stonesoft as the case company of this study resulted from the fact that wide range of information was available from the company and their channel partners, due to the employment of the author.

### **3.2 Conducting the Empirical Study**

The empirical part of the research is based on a single case study. Information was gathered from the case company, Stonesoft, but also from its current channel partners in the form of a partner survey.

The perspective of the supplier company to channel partner motivation was analyzed by using several different methods. Firstly, as mentioned, direct observation of channel practices of the case company was possible due to the employment of the author in the company. Secondly, discussions with the company representatives during the entire project were found useful in the case analysis. Written documents, both from public and internal sources, concerning the channel programs of the company were also available, when analyzing Stonesoft's perspective. Finally, some company representatives were interviewed, both personally and by email. (See Appendix A and B for further information) Additional information has also been acquired during the whole project in the form of email and phone discussions.



The perspective of Stonesoft's channel partners was analyzed based on a channel partner survey conducted among 46 channel partners of the case company. The survey form (see Appendix C) was created based mainly on the information adapted from the preliminary theoretical framework, which, in turn, was based on the literature reviewed on channel relationships. Additionally, the case company's current channel practices influenced the questions of the survey, as well as the opinions of the case company's representatives. The survey form aimed at finding out the issues that are the most important for the partners when they are selecting their software vendors, and deciding to maintain the channel relationship with a particular vendor.

It is possible to combine qualitative and quantitative methods in case study research, and according to Eisenhardt (1989b, 538) it can be highly synergistic. This empirical study has some quantitative elements, as the partner survey to the channel partners consisted of a set of closed and open questions. The closed questions provide some quantitative data from the opinions of the channel partners. However, since the number of participating partners is small, the data acquired from the surveys will be analyzed by using qualitative means.

Besides the surveys, also six partners of the case company were interviewed by telephone. According to King (1994, 16), there are basically three types of interviews that can be used when conducting qualitative research: a qualitative research interview, in which the interviewee is an active participant to the research; a structured interview, in which a detailed schedule with questions asked in specific order are used, and a structured open-response interview, which lies somewhere between the other two interviews in terms of its structure and balance of open and closed questions.

In this study, the interviews conducted on telephone with some of the channel partners were closer to the third approach described by King. The interviews were conducted based on the questions of the survey form, but flexibility was allowed in the order of the questions and some additional questions were discussed as well. The interviews of channel partners were conducted via telephone due to time, and most of all, expense considerations.

Eisenhardt (1989b) argues that analyzing data is the heart of building theory from case studies, but the most difficult part of the process. Yin (2003, 33) discusses in his book the difference between statistical generalization and analytic generalization. Statistical



generalization refers to a conclusion made about a population on the basis of empirical data collected about a sample. Analytic generalization in turn, which, according to Yin, should be the preferred method of analysis in case studies, relies on previously developed theory as a template with which to compare the empirical results of the case study. The study at hand focuses also on analytic generalization, because the main basis for analyzing the results from the empirical part is the preliminary framework based on the existing literature.

### **3.3 Validity and Reliability**

Yin (2003) argues that there are certain tests that can be considered in judging the quality of a research design. The reliability test demonstrates that the operations of the study, for example, the data collection procedures, can be repeated by another researcher with the same results. In this case it means, for example, that if the surveys and interviews among the case company's channel partners were conducted by another person, the results would be the same. The goal of reliability is to minimize errors and biases in the study.

In this study, the research setting was organized in a way, that other people could conduct the same research; for example the interview guide and the partner survey form are documented. The repetition of the partner survey is, in fact, even advisable to be able to follow the development of channel relations with the chosen set of partners. One limitation to the reliability of the partner survey is, however, that only one person from each partner company took part in the partner survey. It can be argued that their views do not necessarily reflect their organizations' views. However, an attempt was made to select the persons as carefully as possible, since the local country managers of Stonesoft with the best knowledge of the partners were responsible for the selection.

In qualitative research, a study is valid if it truly examines the topic it claims to have examined (King, 1994, 31). Yin (2003) makes a distinction between three types of validity: construct validity, internal validity and external validity. Construct validity deals with establishing the right measures for the concepts being studied, meaning that the constructs actually measure what they are supposed to measure. According to Yin (2003) construct validity can be increased by using multiple sources of evidence, establishing a chain of evidence and have the draft case study report reviewed by the key informants.



This case study, as stated earlier, uses multiple sources of evidence, such as written documents, interviews and direct observation. The chain of evidence refers to the fact that all the evidence on which conclusions are drawn, should be available, so that an external observer could follow the derivation of evidence and trace the steps from research questions to conclusions and from conclusions back to research questions. In this case, not all the evidence can be presented in the analysis due to company confidential information. However, the interviews conducted at the case company are documented, either in transcriptions or in notes. Also, the partner survey material, that is, the fulfilled survey forms and interview notes, are available. The process of collecting the data, analyzing the results and drawing conclusions is presented as completely as possible in the study, so that the chain of evidence would become clear. Additionally, the case study report has been reviewed by the key informants of the case company.

Internal validity, in turn, refers to establishing causal relationships, in which certain conditions are shown to lead to other conditions. According to Yin (2003) internal validity can be improved by pattern matching, explanation building, addressing rival explanations and using logic models. External validity, again, establishes the domain to which a study's findings can be generalized into other situations. As was discussed, there are strong limitations to the extent the findings of this case study can be generalized, due to the fact that the study focuses only on one company's motivation practices. External validity of the study has, however, been increased by giving a detailed description of the case company's motivation strategies, so that future comparisons with other software companies would be possible. In addition, both the external and internal validity of the study has been improved by comparing the empirical findings with existing the literature and other research results. (Eisenhardt 1989b)

The actual case study is presented in the next chapter.



## **4 THE CASE STUDY AND THE CHANNEL PARTNER SURVEY**

To gain a deeper insight into what are the critical issues in motivating international marketing channel partners effectively, an empirical analysis is needed. The case study analyzes the channel motivation practices of a Finnish software company, Stonesoft, and compares that information with the preliminary theoretical framework developed in the previous chapter. The empirical analysis aims, thus, at finding out how well the proposed conceptual framework of marketing channel motivation fits the motivation strategy of Stonesoft, as well as the views of its international channel partners.

The study begins by providing some background information by discussing some of the most important characteristics of the software industry both in Finland and on a global scale. Next, the case company, Stonesoft Corporation, and its channel partner programs are introduced. The survey conducted among the case company's channel partners is also presented and the results of the interviews and the surveys are discussed. The case study will follow the logic of the theoretical framework as close as possible, that is, the motivation of channel partners is discussed from the perspectives of the supplier, the channel partner and the marketing environment.

### **4.1 The Software Industry**

The software industry is already one of Finland's most important young industrial sectors, and it has potential to become one of the most important pillars of the Finnish industry. New, internationally active companies are springing up and the rate of growth has been very rapid. (Rajala et al. 2001; Tekes 15/2003)

According to the results of the Finnish Software Product Business Survey 2003, the total turnover of the Finnish software product companies in 2002 exceeded for the first time the limit of one billion Euros, of which exports accounted for about 400 million Euros. The turnover of the industry grew by 14%, which was achieved mainly on domestic markets, where the sales grew by over 20%. There were about 1 000 software companies active in the field, which employed 10 000 professionals of information technology. (Ohjelmistotuotealan kokonaisliikevaihto ylitti miljardi euroa, [www.swbusiness.fi](http://www.swbusiness.fi), 26.8.2003)

The software industry is, accordingly, a significant field of business in Finland and it can strongly affect the growth of the whole Finnish economy (Tekes 15/2003).



Internationalization is at the heart of the Finnish software business, which, in turn, requires building partnerships and effective networks also abroad. Still, the share of Finnish firms from the international software market has not been growing as expected. The biggest challenges for the Finnish software companies are related to know-how in international business and developing and utilizing international networks. Also international channels of distribution are in an important role in building international success. (Tekes 15/2003, 157)

Globally, the software industry is also a relatively young industrial sector. The roots of the industry can be traced to the 1970s, when independent software vendors began to appear to the market. Earlier, hardware and software products were bundled together. From the early 1970s, however, the pricing and the distribution of hardware and software were separated. (Toivanen 2000, 12)

According to OECD Information Technology Outlook (2002), the software industry is among the most rapidly growing sectors in the OECD countries with strong increases in value added, employment and investment in research and development (R&D). The global software market has grown approximately at an annual rate of 10-15%, which has clearly exceeded the growth rates of traditional industrial sectors (Autere et al. 1999, 13). Even though the growth has been clearly slower during the recent years, the market is, nevertheless, estimated to keep growing at the rate of 10% in the future. (Tekes 15/2003)

The rapid growth of the industry can be seen to result from several different reasons. The general development of information technology has increased the demand also for software products and the spread of Internet has further accelerated the growth. Additionally, companies across all sectors of the economy are increasingly investing in software, which has also affected the growth of the total software market. Thus, software is a cornerstone of today's high-tech economies, and it plays a significant role in several different industry fields. (Autere et al. 1999, Toivanen 2000, Alajoutsijärvi et al. 2000)

The global software industry is undergoing continuous change in terms of technology and market behavior. Technological development and innovation are occurring at a faster rate than in any other industry sector and the product life cycles of software are extremely short. Furthermore, new markets continue to open up for innovative



software products and services in different fields of business. (Toivanen 2000, Hoch et al. 1999)

Competition in the industry is extremely fierce. The barriers to enter the software industry are lower than in many other industries, because the capital investments needed in the start-up phase are relatively low and high innovation rates lower the entry barriers even further. Thus, new innovative companies enter the software market at a rapid rate. On the other hand, the top positions on the market are not very stable either; a technological shift or an aggressive move of a competitor, for example into a new product field, can change the competitive situation radically. (Hoch et al. 1999, 39-42)

Generally, the structure of the software sector is not very stable, as it develops continuously along the growth of the companies and the development of the technology. In addition to the traditional forces affecting the business environment, a particular characteristic of the software industry is the existence of different industry standards and dominant platforms. Today, there are many competing platforms and standards in place, which adds to the complexity of the industry. Therefore, the field can be characterized by a great deal of technological uncertainty as no one seems to know which technology or standard will prevail in the future. (Hoch et al. 1999, 35)

The United States has been the dominant country in the software industry (Autere et al. 1999, 9). According to a report by Tekes (15/2003, 150), the share of the USA from the global software market is 47%. It also seems that its position at the top is not being threatened by European or Japanese software companies. Because of its dominance in the software business, the US is also an important market for Finnish software vendors because the pure size of the market enables faster growth.

#### *4.1.1 Software Product*

The software industry is a knowledge intensive industry whose output is information in the form of coded instructions that direct the operations of computer equipment.

Software products can be defined or categorized by several different ways. In the Finnish context, the most commonly used definition seems to be the one by Nukari & Forsell (1999), which divides software products into three main categories: software products, or packaged software, tailored systems and embedded software. Packaged



software products have not been customized to one particular customer; thus, they can be sold as the same package for millions of end users. Packaged software includes products such as spreadsheet and word processing programs as well as anti-virus programs. Tailored systems need always customization to the needs of a particular end customer, whereas embedded software products are components of some other products than actual software products. This group includes, for example, the software developed for mobile phones. The boundaries between the different product groups are, however, not very clear; thus the same software product can be included in more than one category. (Nukari & Forsell 1999)

Services are closely related to software products since software implementation requires almost always some level of servicing, whether it is self-service or on-site delivery. Servicing includes, for example, implementation and consulting services, training, hosting services, maintenance or technical support contracts and product upgrades (Rajala et al. 2001, 49). In fact, some of the channel partner arrangements in the software business are focused on the servicing co-operation in order to deliver a complete solution to the end user.

Software products are quite different from the products of some other industry fields also in the sense that they are not physical but information or digital products. Information products have some unique characteristics that differ from physical products. A digital product is typically expensive to produce, but very cheap to reproduce. Producing the first version of the product requires significant amount of, for example, analyst, developer and programmer hours. On the other hand, the cost of producing the following copies after the first is very low, or close to zero. After the development, copies of software products can be made basically at the cost of blank CDs and mailing, or when delivered electronically, with the communication costs only. Thus, almost all the costs of producing software is in the design and coding of the product and the variable costs for the subsequent copies are typically small, which creates substantial economies of scale for the producer. (Rajala et al. 2001, 21; Shapiro & Varian 1999, 21-22)

#### *4.1.2 Networking*

The severe competition in the software field has resulted in high pressures to network with different types of companies. In the software industry, the products are often not



delivered directly to end users, but through and together with several other parties. In networked software businesses, a part of the sales and marketing function is often implemented with strategic partners. The group of partners determines together whether the product will ultimately satisfy the end user and, thus, partnering with the right parties has become very important.

Traditionally, software companies have relied heavily on indirect channels and sold and marketed their products mainly through extensive networks of distributors and resellers. Usually, a network of partnerships is built to provide greater selling and implementation coverage. Partner webs are often made of equal partners, which is quite distinctive when compared to traditional buyer-seller relationships. The software vendors depend largely on independent partners, who are not controlled or owned. (Hoch et al. 1999, 192) Consequently, software companies commonly want to ensure that the incentives to join, to stay and to act in the interest of the organizer are high enough.

According to Anderson et al. (1987), suppliers use many channel management activities to influence resource allocation behavior of independent channel members. A typical tool of software suppliers for motivating their channel partners and for also gaining control in the channel is the design and the management of channel partner programs. The channel programs often contain, for example, the supplier's pricing policies, different requirements from the channel members and also the benefits and the rewards that are offered to the partners in return for participating in the program. Partner programs for distributors and resellers can, thus, be viewed as a way of motivating marketing channel partners.

To sum up, the aspects of the software industry discussed above underline the fact that the sector differs to some extent from many traditional manufacturing sectors. The software industry is a relatively young industry, which has, nevertheless, become a very important sector, because it plays such a major role in almost all the industrial sectors of today. Despite the recent slowdown, the industry seems to continue its growth at a very high rate, which makes it very attractive, but also a somewhat complex field of business. The industry seems to be undergoing continuous change, as the levels of innovation and technological development are very high. New products, new markets and new companies are springing up in the software sector faster than in most other industries. The software industry can also be characterized by fierce global



competition. Networking and partnering have therefore become very important in the sector and taking care of the established relationships is considered to be one of the key elements of success.

### **The Role of Motivation in the Software Industry**

The theoretical framework suggested that the characteristics of the industry might influence the need and the methods of motivation, of which the supplier should be aware. Because of the special characteristics of the software industry described above, the motivation of marketing channel members can be seen essential in the field. Firstly, indirect marketing channels are in a critical role in the industry, because of, for example, the global nature of the industry. Few software companies have sufficient resources to use own sales force on global markets, which increases the role of middlemen in the channel. The channel intermediaries take care of some central tasks in the channel that cannot be performed by the supplier, including value added services, such as implementation, support and maintenance. Therefore, international channel members play a huge role in the success of global software companies, which also highlights the importance of their effective motivation.

High degree of globalization, on the other hand, makes the motivation task quite challenging. Long distances and different cultures, for instance, complicate the channel management process, and more attention needs to be paid on the different ways of how to motivate channel partners. Competition in the software sector is also fierce, which further increases the importance of effective channel partner motivation. The channel members have a wide variety of suppliers, whose products to actively promote, and in this context, the attractiveness of channel programs can make a difference between different suppliers.

The nature of software product, meaning that it is often a complex, technical product requiring high service level, affects also the need for motivation. Channel partners need more technical support and training to be able to deliver the solution to the end customers. Also, the fact that software is often in a digital format decreases, for example, the importance of physical inventories, which can affect the partners' incentives to actively promote the products.



## **4.2 Stonesoft Corporation**

Stonesoft is a Finnish software vendor founded in 1990, which develops, markets and sells a broad family of integrated network security solutions. The company provides enterprise-level network security and high availability clustering solutions for companies deploying business-critical network applications on Internet and mobile servers.

The vision of the company is to provide business continuity and security solutions with high quality services to ensure economic worth to its customers. Important end customers for the products include Fortune 500 companies, as well as other big organizations. The largest customers are found among telecommunication companies, commercial banks, securities companies, and computer manufacturers. According to the company's Website, examples of current customers include: Bank of America, Lufthansa, Merrill Lynch, NASA, NTT, Samsung, Shell Oil, Sonera, Terra Networks, Telefonica Time Warner, and various government agencies.

Stonesoft has its international headquarters in Helsinki, Americas' headquarters in Atlanta and Asia Pacific regional headquarters in Singapore. It has sales and/or marketing offices in Americas, including Canada, Mexico and Brazil. Its European offices are in the United Kingdom, Germany, France, Italy, Netherlands, Spain, Sweden, Norway and Denmark. Stonesoft's Asia Pacific offices are in Singapore, Japan, Hong Kong and Australia. Stonesoft has currently about 340 employees worldwide

The sales of the company in 2002 amounted to a little more than 30 million Euro, of which the share of Europe, Middle East and Africa (EMEA) was 72%, North and South America 20% and the Asia-Pacific Region 7%.

Stonesoft can, according to the definition used in the previous chapter (see section 2.1), be included in the group of Finnish born global companies. In fact, it has been one of the case companies in an earlier Master's Thesis study concerning the distribution strategies of born global companies (see Sankari, 2002) The company is a relatively young company, and its sales outside its home continent have been substantial for several years. Even though the sales in Americas and the Asia-Pacific region have declined in the recent years, their share from the total sales is still around



30%. The company has also had a strategic intent to be a global player from the mid 1990s.

The company's target customers include, for example, very large Fortune 500 companies. It can, consequently, be said that the company's target market segment is relatively concentrated. As was concluded earlier, the software industry and the network security business particularly, is also a very global industry, meaning that the company's target markets are geographically dispersed. The company has to operate globally, because the market potential in Finland, and even in Europe, is somewhat limited. Nevertheless, Stonesoft is a relatively small company on a global scale, and its resources to cover global markets with its own sales people are, therefore, restricted. Indirect marketing channel members and their motivation are, thus, very important for Stonesoft.

The network security business is also a very competed industry, which means that the motivation practices of competitors have to be considered when developing own channel programs. A representative from Stonesoft stated that one criterion, when building its channel program, is the channel programs of competitors. The benefits offered in own program have to be in line with the benefits offered by other suppliers to ensure the competitiveness of the program. Therefore, the programs of different security software suppliers are to a large extent similar.

#### *4.2.1 The Products of Stonesoft*

Stonesoft's products include software products and services aimed at enabling secure and highly available enterprises. The term high availability refers to a system that is capable of providing service with nearly 100% certainty, and it is a basic requirement for almost any equipment used in telecom networks and for gateway and server based applications in the Internet. Stonesoft's product vision is to create interoperable products that have centralized management, enabling layered defense, or defense-in-depth, with distributed security policy enforcement. These tools are needed to solve the real life problems the customers face in today's enterprise network.

The products of the company can be divided into two major product groups. StoneGate products combine a clustered, high availability firewall, virtual private network (VPN), load balancing, and redundant Internet connections. StoneBeat product line, again, is a software-based high availability and load balancing solution for network security.



StoneBeat's technology maximizes the effectiveness and availability of the critical network components, such as 3rd party firewalls, anti-virus protection, email/Web content scanning, malicious mobile code protection servers, and intrusion detection network sensors.

Stonesoft provides also services for the users of their fairly complex products. The company supports its customers through the different stages of network growth: from planning and design, through implementation to on-going management.

Stonesoft has a customer service organization that provides order administration, software support, and training services for all Stonesoft products. Order administration is responsible for handling orders, order confirmations, license certificates, license management and invoicing. Professional services provide pre-sales and post-sales support to Stonesoft customers with valid support and maintenance agreements. Support services are available on 8/5 or 24/7 basis. On request, professional services organization provides on-site installation, integration, and troubleshooting services. Training services manage the Stonesoft's training programs, and arrange certification courses for all Stonesoft products.

During the last years, Stonesoft has been transforming from a vendor of third-party products and a manufacturer of add-on products to a global supplier of security platform software. This means that the focus of the company has transferred from StoneBeat products to StoneGate, which is a high availability firewall and VPN product. The transformation has been a big change for Stonesoft, and it has caused a lot of adjustments in how the company operates. In addition, the company's financial result has suffered, due to a decrease in the sales of StoneBeat products that has not yet in 2002 been compensated for by the increase in the sales of StoneGate.

StoneBeat product line can, thus, be described as being in a declining stage in its product life cycle. StoneGate, on the other hand, is still at the growing phase. Due to the strong decline of StoneBeat products, the channel program of the case company is in practice completely directed towards the partners, who deal with StoneGate. The partners, who sell only StoneBeat still exist, but they are not paid any particular attention to because their sales have declined so drastically. It can, thus, be stated that all the focus of channel management activities is on StoneGate products.



## **The Role of the Product in Motivation**

As suggested in the theoretical framework, the product life cycles seem to affect the motivation practices used. At Stonesoft it means that all the motivation effort is focused on the partners that sell the product that is expected to grow, that is StoneGate, and the partners dealing with the declining StoneBeat product line, are basically left to their own. The main reason for this is that the partners, who sell StoneBeat and not StoneGate, are actually partners and customers of the suppliers providing competing firewalls. Therefore, the motivation efforts towards these partners are so limited.

The influence of the product life cycle can also be seen from another angle. A company representative stated that when new products are launched, the channel partners need more support and motivating. The partners need to be shown that there is actual demand for the product; superior technology or other advantages are not enough for making the partners to actively push the new product. In practice, this often means that the supplier has to find the end customers for the new products and bring them to the partner. Thus, new products need more motivation efforts than older, more established products.

Stonesoft's products are also such that the indirect marketing channel has a very important role in delivering the products to the end customer. The product requires certain service elements, such as implementation and support services that simply cannot be provided to the end customers by the supplier. The marketing channel adds, thus, considerable value to the product, which results in the increasing importance of the channel. When the channel partners are in such an important role, also motivating the channel is increasingly important.

The complexity of the product can also affect the motivation of the partners in such a way that when the complexity of the product increases, so does the time and effort needed to install the product or implement the solution. The channel partners receive, however, a large part of their income from installations or from implementing the solutions. Therefore, the more complex the product is, the more income the partners receive, and consequently, the higher their motivation towards the product. On the other hand, the case company has been able to decrease the complexity of the installation of its products, which is naturally appreciated by the end customers. However, the channel partners lose, along the easy and fast installation, some of its



income, and there is a danger that they will eventually become less motivated towards the supplier's products. On the contrary, the distributors could see the easier installation as a benefit and a competitive advantage, which, in turn, would increase their motivation towards the supplier's products. In this case, the effect of the product's complexity on the partners' motivation is not very clear.

One more influencing factor resulting from the characteristics of the product is the amount of inventories that the partner is required to keep. Software products that are delivered via Internet in a digital format do not require the partners to hold large inventories, which would, on the other hand, be helpful in committing the partners to actively sell and promote those products. Stonesoft has, however, been moving to the area of appliances, as a new appliance product has recently been added under the StoneGate product family. This means that the channel partners are in the future required to keep some amount of the appliances in their inventories to be able to give demonstrations and take care of replacements, for example. Having products in the inventory can, thus, influence the partners selling efforts to some extent. Since the product is so new, there is not much information available on this aspect yet.

All in all, the different characteristics of the product seem to certainly have some influence on motivation, even though the effects are not always very clear.

#### *4.2.2 Channel Structure*

Stonesoft sells its products worldwide in over 80 countries. The products are delivered through professional channels, which include a network of nearly 500 value-added resellers. The reseller network aims at ensuring that the end customers get the required design, installation services, easy implementation and technical support fairly quickly. The channel partners are entitled to obtain the case company's products for the purposes of marketing, reselling, delivering and installing them to the end customers' sites in the partner's territory.

From the outset, Stonesoft has utilized a distribution strategy consisting of indirect channels that include local channel intermediaries. Historical reasons and the limited resources of the case company are among the most important motives for using indirect channels of distribution. In the past, the distribution of StoneBeat product was done in cooperation with a leading firewall supplier Check Point; meaning that the resellers of Check Point firewall were utilized also for the global distribution of



StoneBeat. At present, when StoneBeat product line is strongly declining, and Stonesoft has brought its own competing firewall product to the market, the competitor's distribution network is no longer available, at least to the same extent as before. However, the same distribution model that Check Point has utilized successfully, that is to deliver the products through international channel intermediaries, was also considered a good solution for Stonesoft's own firewall product line.

Additionally, by using indirect marketing channels, the company is able to reach a wider customer base and higher market coverage than by using its own sales force. End customers in different countries do not necessarily know all the different suppliers, and, therefore, the local channel intermediaries are in the best position to reach the end customers, and they also have the best knowledge about different projects that may be going on in their areas. With its own sales force, Stonesoft would be able to cover only a small fraction of the total market potential.

The company representatives pointed out also that the product is, in terms of its price and complexity, suitable for indirect distribution; it is not too expensive and complex, but on the other hand, it cannot be sold directly from the store's shelf. The products need to always be installed by someone, and in this case, as was discussed, the indirect channel is the only reasonable solution available for performing the task.

Stonesoft uses, in principle, a single sales channel strategy, where different types of indirect channel members are used globally. On the other hand, Stonesoft and particularly its local subsidiaries are also very active in creating demand among end customers, and some sales promotion activities are done directly with end customers. The company, for instance, creates end customer contacts and participates in some projects with the end customers. Nevertheless, all the sales are done through the channel partners, and the channel is also expected to be strongly involved in the end customer demand creation.

According to Stonesoft, the reason for doing active sales work also at the end customer level is that this way the channel partners' commitment to the company and its products can be improved, as the channel partners can see that the company is also able to bring good business opportunities for them. On the other hand, when the sales



are still always done through the channel and not directly, the possibility for channel conflict is smaller.

It can, therefore, be argued that Stonesoft utilizes some sort of a hybrid channel strategy. Even though channel members, particularly value added resellers, are responsible for both the sales and promotion functions, Stonesoft's subsidiaries are also doing active promotion and customer generation at the end customer level. The case company and its channel partners, thus, share the promotion and customer generation activities.

Besides the sales and the marketing, other functions that the channel partners perform include, for example, the physical distribution of the products to end customers. The distribution takes place quite conveniently via Internet, as the license keys that are needed to generate the software licenses can be sent to customers by Email. With the license key, the customers are able to download the software from the license center at the company's Website. The channel intermediaries handle also the invoicing of the end customers.

The marketing channel of Stonesoft includes normally two local intermediaries: a distributor and a value added reseller (VAR). The main task of the distributor from the case company's point of view is that it takes care of the contracts and the money flows with the resellers. The distributor faces, thus, the risk of non-payment by the reseller. From the supplier's point of view, the risks are in a way bigger, but they are in the hands of fewer channel members. Moreover, in some countries, distributors have traditionally been experts in doing business with foreign companies: taking orders, communicating with the suppliers and taking care of the daily routines, for instance. Smaller resellers with more limited resources are not necessarily able, or do not want to be involved in these kinds of activities. The third traditional function of distributors is related to keeping sufficient inventories to be able to deliver orders locally, which, on the other hand, is not as relevant when dealing with software products. In addition, distributors can be involved in doing active promotion work and generating customer leads, which is, however, most often the responsibility of the vendor or the reseller.

The main tasks of the resellers, on the other hand, are related to end customers. Resellers sell and market the products to end users, and they are required to generate new customer leads and be active in creating new markets. Therefore, in terms of



marketing activities, the reseller partners are more important in driving new business, whereas the distributors do not necessarily have a direct contact with the end customers. Value added resellers are also in a key role in providing the end customers with implementation and other value adding services.

In practice, when the marketing channel includes both distributors and resellers, Stonesoft deals directly with the distributors only, because the distributors supply the products and services to the resellers. The products are not sold directly to resellers, but the company works actively also with these partners to generate new business opportunities. If there is a sales opportunity identified, the customer should purchase the product from a Stonesoft reseller partner, who in turn would be expected to place the order to one of the distributors. The distributor, then again, places the order on Stonesoft. Therefore, Stonesoft has to ensure that, for example, payment terms, credit limits and discounts are agreed with the distributors. It also provides partner guidelines, which indicate the terms on which Stonesoft would request the distributors to trade with the reseller partners, but the guidelines cannot be enforced due to legal restrictions.

In general, the roles, the terms and conditions and the tasks of distributors and resellers are, thus, somewhat different in the channel. The channel program of the case company treats the partners, however, about the same way. According to the case company's representative at the headquarters, in practice, the roles of the partners do not, from their point of view, differ that much from each other. Both distributors and resellers should be active in selling and marketing the products in their channels and creating new customer contacts. When the channel program is the same for both types of channel partners, the distributors are also given the possibility for being active in the end customer lead generation. In practice, however, the daily channel management activities with the different partners can be very different from each other, which will be discussed later in this chapter.

In terms of channel width, the marketing channel of Stonesoft can be described to be selective. The main argument for this is that the company wants to encourage some competition on its markets. It is important from the vendor's perspective that not all the eggs are in the same basket, but there should always be some alternatives available. Therefore, the company aims at having at least two alternative channel members on

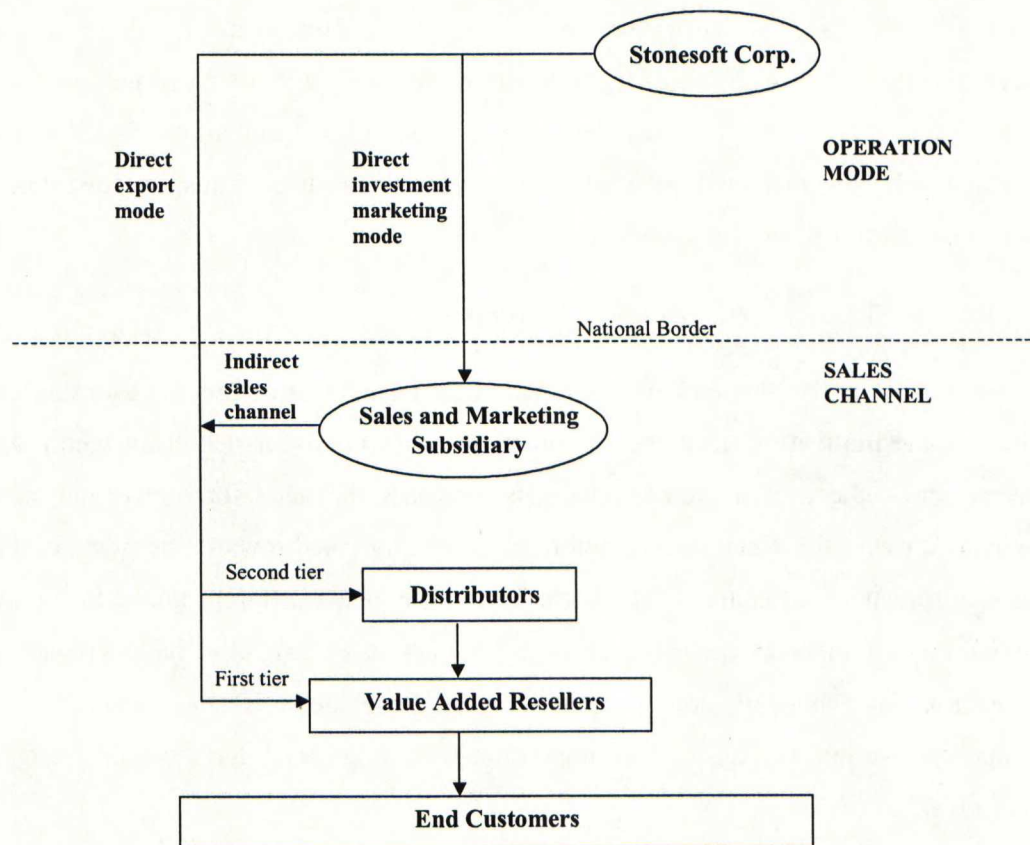


each level of the market. This can also be beneficial considering the end customer, who is given a choice of resellers.

Then again, situations can occur in which, for example, one distributor has a really strong position on a certain market, which means that in practice, sales are done through that partner. Nevertheless, the company aims at reducing the dependence from the partner also in these situations by trying to find other partners, which, on the other hand, can also create channel conflict and harm channel relations and motivation. When there are, alternatively, too many resellers operating at the same area, the competition forces margins to decrease, which, again, harms the motivation of the partners towards the supplier's products.

The following figure pictures the channel structure of Stonesoft:

*Figure 8: The Channel Structure of Stonesoft*



It should be noted, however, that there is some flexibility in the channel structure as it differs somewhat from country to country. In principle, the channel includes a local sales and marketing subsidiary, which takes care of the sales and marketing functions



towards channel intermediaries. Some subsidiaries are only sales subsidiaries, whereas others take the responsibility also for marketing functions. For example, Stonesoft's subsidiaries in the UK, Germany and Spain are sales and marketing subsidiaries, whereas the offices in Italy and France are pure sales offices. In EMEA, some subsidiaries also take care of the sales and marketing activities in other countries; for instance the German office handles the activities in Austria and Switzerland as well.

On the other hand, the sales and marketing in some countries, which do not fall under any of the existing sales and marketing subsidiaries, is handled from the Helsinki headquarters, that is, direct export mode is used instead of direct investment marketing mode. This is usually the situation when, for example, new markets are opened.

In Europe and Asia, Stonesoft's marketing channels include usually two levels of local intermediaries, distributors and resellers, whereas in the US, resellers are the only channel intermediaries used. The reason for excluding the distributor level in the US results from the fact that distributors are not thought to bring so much value added to the channel in terms of the tasks traditionally performed by them. In some countries, for example in Sweden, some resellers are also such big organizations that they are able to handle the responsibilities of a distributor themselves. Thus, the distributor level is not always needed elsewhere either.

### **The Role of Channel Structure in Motivation**

It was stated in the theoretical framework that channel structure decisions might influence the motivation need and the practices used. Firstly, as has been mentioned several times, the use of indirect channels increases the need for motivation, as a company's own sales force is expected to be more motivated towards its own product line than independent channel intermediaries with perhaps different goals. Secondly, the number of channel members at each channel level can also have effects on motivation. At Stonesoft, some competition in the channel is seen beneficial for channel motivation, but too much competition will, in contrast, have negative effects on motivation.

Different channel member types were also assumed to be motivated by different things. At the case company, the channel programs for these different types of channel members do not differ much, because in principle, Stonesoft expects that both types of partners are active in selling and promoting their products and services. However, the



implementation of the programs and the daily channel management, which will be discussed in more detail later, can be very different for distributors and value added resellers.

The fact that Stonesoft uses some sort of a hybrid channel structure, that is, the promotion functions are shared between the channel partner and the sales and marketing subsidiaries, is clearly an attempt to increase the motivation of channel partners. By being active in creating end customer demand and sales leads, but not selling to the customers directly, the company is showing its support and commitment to the channel and avoiding harmful channel conflict, which can be assumed to increase the motivation of its channel partners. The active sales work with end customers is also an indication of a pull strategy; that is, the company supports the channel by assisting it in reaching and sustaining end customers.

#### *4.2.3 Channel Program*

Stonesoft introduced a new partner program in spring 2003. The main reason for a new channel program seems to be that the management of the channel was seen problematic in the previous program due to the lack of formal partner contracts. Not all partners had signed a partner agreement, which complicated the channel management in terms of responsibility issues, for example.

The new program is based on a partnership agreement, which all the partners have to sign. The contract offers channel partners different roles depending on their interests and qualifications. The partners can, consequently, act as Value Added Resellers (VARs), Distributors, Support and Maintenance Partners, Service Provider Partners, Appliance Partners and Authorized Training Site Partners (ATS).

Certain partner roles contain many levels, with each offering different discounts from the products and services, as well as other benefits. For example, the channel program for value-added resellers has three levels: silver, gold and platinum. The partnership level is based on points that channel partners can earn from the sales of the supplier's products and from other actions, such as publishing case studies, having extra persons trained to sell the case company's products, giving first line support to end customers and showing commitment to the case company by not carrying any competing products.



The channel partnership is, thus, based on a signed agreement between the supplier and the channel partner. Each partner has a valid partner base agreement, on which different attachments can be added, indicating the role of the channel partner. The base agreement forms, thus, the foundation of the partnership as it outlines the general terms and conditions and establishes the scope of the partner's territory and some general procedures in terms of, for example, the termination of the partnership. The attachments to the base agreement, in turn, identify specific partner roles. For example, a Value Added Reseller signs a base agreement and a VAR attachment, which contains specific terms and conditions for a VAR, provides the structure for providing support and maintenance services to end customers and establishes prices and discounts for the VAR. The terms and conditions, thus, differentiate the different partner types from each other.

One of the most important goals of the case company's channel program is to attract and maintain good channel partners by offering them attractive benefits, but to also exert some control over the channel in the form of certain requirements. The set of benefits offered to the partners in the channel program can be considered as the main motivational element of the program. As the case company has expressed it, the main objective of its channel partner program is to ensure the motivation of distributors and resellers to push the company's products. Another objective is to ensure that the channel provides high-class support to the end customers and that the partners are able to sell the products of the supplier the most effective way. Shortly, the channel program aims at having a highly qualified channel that creates value to the end customers, but is also fairly compensated for its investments and commitment.

Some of the benefits that the partners receive from the channel program include at the moment, for example, co-operative marketing funding, sales leads and free technical and sales training. Co-op marketing program means that partners can receive funding for their own marketing and business development programs to increase the sales of Stonesoft's products. Additional benefits include, for example, promotion participation, marketing materials and sales tools. The level of benefits received increases along the different partner levels. Thus, the more the partner sells or otherwise contributes to the supplier's products and services, the more benefits he will receive.



What is expected from the partner, that is the requirements, include for example that the partners use their best efforts to market and promote the case company's products and services to its own customers. The partners should be committed to the relationship, provide first line support to end customers, have dedicated sales personnel for the supplier's products, generate sales leads and share information about their customer accounts.

The benefits and the requirements of the channel program can be seen in the light of the partnership advantage concept discussed earlier in section 2.6.3. Partnership advantage was defined as the ability to provide the partner firm with some advantage relative to other potential partners (Sethuraman et al. 1988, 328). Firstly, the benefits offered in the channel program to the channel partners are clearly an attempt to provide the partners with some advantages that are valued by the partners and not attainable from other sources. The different support forms, the unique product offering and the trainings, for example, are a way to ensure that the partners receive benefit from being in the relationship with the supplier.

The requirements from the partners can, again, be seen as a way to ensure that the goals of the supplier are achieved. It was discussed earlier that suppliers set goals with channel middlemen regarding, for instance, sales quotas and service levels. By performing the functions expected and by meeting the goals of the supplier, the channel middleman can, in turn, ensure that they provide the supplier with a partnership advantage in relation to alternate channel partners. It is clearly a partnership advantage to the supplier, when the partner has expertise to sell and service the products of the supplier, is committed to the relationship and generates customer leads. Therefore, one aim of the channel program is also to meet the needs and the goals of the supplier.

Generally, the channel program provides the structure for defining the relationship with the channel partners. The program and the partner agreement set in place the expectations of the channel parties.

### **Channel Program in Terms of the Partners' Needs**

The preliminary theoretical framework presented in the second chapter emphasized that the channel support program should meet the needs of channel partners in terms of



financial profitability, sufficient support, collaborative relationship, sellable product offering and functioning distribution policy.

The channel program of Stonesoft seems to fulfill quite well the needs of the partners as described in the framework. The case company attempts to motivate its channel partners to effectively market and promote its products and services by offering them a lucrative partnership agreement and a channel program, which includes many of the different motivational aspects discussed earlier.

According to the case company's channel program promotion material, the company has realized that it is important, first of all, to offer its partners financial incentives in terms of adequate profit margins to motivate them to put maximum efforts on the case company's behalf. Profit margins are, in fact, emphasized as one of the main reasons for potential channel firms to partner with Stonesoft. The discounts offered from the sales are increased as the partner reaches a higher partner level; which in turn depends mainly from the current sales of the partner.

Incentives based on profit margins can be seen in terms of the agency theory as a form of output-based contract, in which the partner is coordinated and motivated solely on the basis of his performance. The partner receives a certain profit from his sales of the supplier's products and the more he sells, the better are the margins. According to the literature reviewed in the earlier sections, the margins from the products and services sold have to be high enough to motivate the partners, but much of the risk is at the same time transferred to the channel partner.

Besides adequate profit margins, the case company offers its channel partners different kinds of supports in its channel program. The support provided includes for example free sales and technical training, co-op marketing funding, sales lead generation programs and access to marketing materials and sales tools. Consequently, the case company does not seem to rely solely on the output-based control mechanism, but also wishes to affect the channel partner's behavior more directly.

By offering different kinds of support, the supplier is able to stipulate the partner's behavior towards actions that will eventually benefit the supplier too. For example, by providing the channel partner with sales and technical training, the case company can ensure that the partner is first of all able, as well as effective, in selling its products and services, which will directly benefit the case company as well. Additionally, training is



a very effective way to increase the commitment of the partner to the supplier, as training is to a large extent product-specific investment, which is not useful in selling the products and services of other software suppliers. There are, thus, sunk costs involved if the partnership with the case company ends. The objective is to create a positive lock down situation, which would further motivate the partner towards the supplier.

In behavior-based contracts, there are usually also some requirements involved. Also the channel program of Stonesoft has certain restrictions for its channel partners. On a general level, the partner's market position should fit into the case company's own strategy, the partner should have a suitable clientele, the partner companies should be big enough and the partners should also be financially in good health. Additionally, the partners should commit themselves to technical and sales training, they should have clear business targets and joint action plans, they should guarantee the case company a certain visibility in their marketing and agree on review points. The partners have to also have a certain amount of dedicated and trained personnel for the sales of the company's products and services, and the use of co-op marketing funds has to be approved by Stonesoft in beforehand.

As relationship marketing theory suggested, relationships characterized by high degree of commitment, trust and effective communication between the parties, are more successful, and mutual value is created for the parties involved. Stonesoft seems to also have paid attention to building successful relationships with its channel partners. The company emphasizes in its channel program material, for example, the role of commitment, both from its own behalf as from the partner's side, as one of the key aspects of its channel program. Achieving mutual success and a true partnership are stressed, as well as deciding mutually about the sales targets. The importance of two way communication has also be taken into account, as the company emphasizes, for example, the role of sales lead generation and sharing of information about sales leads and customer accounts with its channel partners. The channel partners have been dedicated account managers from the case company to improve the flow of communication between the parties of the relationship.

Channel conflict has been avoided by always using the indirect channel for the sales of product and services; thus no direct sales are done. Also, when there are distributors on



the market, the sales go always through them. Resellers are, thus, not sold directly, which would harm the channel relations with the distributors.

Dependence of the channel partners from each other can also be used as a motivator. One of the key points in channel competition is to achieve “mind share” among the channel partners. If a channel partner is strongly financially dependent on one supplier, others may have substantial difficulties in getting their own share from the partner’s mind. On the other hand, the suppliers also aim at reaching this kind of a dominant position in their partner’s minds, by, for example, relationship-specific investments, such as training the partners.

Product and physical distribution considerations have been emphasized as well. The company points out, for instance, that its technologically superior product is one of the main reasons that potential channel partners should join its channel program. Another factor that was brought up by the case company related to their product is that the product has to be competitive and easy to sell, so that the partners would be more motivated to push the product to their customers.

Also the role of the case company’s organization, in terms of different support and service functions, is emphasized as one of the strongest points of the case company’s channel program.

In principle, the channel program seems to take into account the needs of the channel partners in terms of adequate profits, sufficient support, cooperative relationship, attractive product and easy distribution. The program can, thus, be expected to provide the partners with some partnership advantage.

#### *4.2.4 Implementation of the Channel Program*

Even though the channel program is defined at the corporate level of Stonesoft, that is, the program is basically the same for all the company’s channel partners, the implementation of the program can be very different in different parts of the world. The daily management of the channel program is done at the level of local subsidiaries, which, for example, select the channel partners, communicate with them on a daily basis and maintain the working relationships with the partners. The program implementation depends, thus, on the local organizations, which include the sales and marketing subsidiaries of Stonesoft in different countries.



The responsibility of the practical channel management activities is divided to some extent differently in different countries. When a country has only one Stonesoft representative, for example a country manager, that person takes care of the channel management. On the other hand, when there are account managers and marketing personnel in the country, the channel management functions and different partners can be divided among several people.

How the program is implemented, that is, how the opportunities of the program are used, depends to a large extent on the activity of the local channel manager and the marketing department. The local offices can have, for example, different kinds of sales and marketing campaigns in their respective areas that are used to motivate the channel outside the official channel program. In UK, for example, campaigns are initiated with the partners to generate new business opportunities. These activities may include seminars, mail-shots and telephone-marketing campaigns.

Therefore, the channel program is only a framework for the actual channel management and motivation work that is in practice done locally. The headquarters in Helsinki has, thus, not so much control over the actual channel program implementation.

### **Local Factors Influencing Motivation**

The reason for local organizations taking care of the implementation of the program is that the local subsidiaries are seen to be in the best position to adapt the program to local circumstances, which may require the use of different kinds of approaches.

The different countries in which Stonesoft has operations differ in terms of, for example, culture. The culture of the partner's country is taken into account by giving the responsibility from the channel program management to the local organizations, which consist mainly of local people. The people at the local offices are in the best position to deal with different conditions, different cultures, and with different languages.

The language requirements are considered at Stonesoft, for example, by not publishing a global newsletter to its partners. All the communication is, instead, done at the local level using local languages.



An additional cultural difference that was brought up in discussions with Stonesoft representatives is that the role of partner contract is different in different countries. In some countries, business can be done without contracts based on what was otherwise agreed. In other countries, again, the contract paper is extremely important in guiding the channel activities.

The conditions are different in different countries and therefore the channel program has to be flexible so that it can be adapted to various situations. For instance, Stonesoft's channel structures are a little bit different in different parts of the world. In the US, the sales and marketing are done through resellers only, which affects the channel management work done in the US. In the UK, on the other hand, the products and services are distributed using two distributors, which in turn use several different Stonesoft reseller partners. Due to the differences between channel structures and types of partners, the channel management and the motivation in the UK is different than in the US.

In Europe, there are also some so-called pan-European distributors or resellers, who operate in several different countries. This can be an advantage and improve the channel relationship, but also complicate the channel management in those countries. It is possible, for instance, that Stonesoft has in some country very good relationship with this kind of a partner, whereas in some other country, the relationship may not be as good. The existence of these pan-European partners, can, thus, also affect the channel management and motivation activities of the local subsidiaries. All in all, it can be argued that channel structures in different countries, for instance, what types of intermediaries are available, affect the motivation management of Stonesoft.

Legislation varies also to some extent in different countries, which means that the terms and conditions of partner programs may have to be different in different parts of the world. Additionally, economic conditions in different countries can affect the channel management efforts. Generally, as the economic situation has been difficult in the information technology sector, the motivation has overall been more significant in channel management activities and the financial incentives, such as profit margins, play a big role. On the other hand, there have been many changes in marketing channels, because several partners have gone out business due to severe economic conditions. This affects the daily channel management done at the local level as well.



Political factors or infrastructure factors do not, on the other hand, seem to play such a big role. For example, companies in Eastern Europe are on the same line as companies in Western Europe, that is, the infrastructure is the same as elsewhere. Emerging markets, such as China, are again, a different story, because the local conditions can be very different from Europe. Perhaps the fact that the company's product is used mainly by large organizations, and the technological environment in which the product is used is already so advanced that the infrastructure factors do not play such a big role.

An additional aspect that was mentioned by Stonesoft included that the channel program should in each country appear more appealing than those offered by competitors. Thus, it is important to highlight the aspects of the program that may positively differ from others. This could mean that the terms and conditions, discounts, marketing funds offered, sales support and training, for instance, could be designed differently than offered by competitors.

### **Summary**

When summing up the findings of the case analysis so far, it was noticed at first that the software industry has its own influence on the motivation management. The special characteristics of the software industry, such as high growth rates, fierce and global competition and high level of innovation and technological change, resulted in increasing importance of channel partner motivation in the sector. Indirect marketing channels are in a critical role, because of the global nature of the industry, as well as the high service requirements fulfilled by the channel, which, in turn, makes effective motivation essential. High degree of globalization, on the other hand, makes the motivation task also more challenging.

Besides industry related factors, also some issues related to the company itself were found to affect the motivation process. Stonesoft is a global company, but relatively small compared to large multinational companies, which means that its resources to cover global markets with its own people are restricted. Indirect marketing channel members are, therefore, important also for Stonesoft for achieving its goals, which makes their effective motivation a critical task.

In addition to the global strategy and the resources available, also the channel structure of Stonesoft was found as a significant factor influencing its motivation decisions. Firstly, the use of indirect channel increases the need for motivation. Secondly, it was



found that selective channel structure was believed to be the most advantageous considering motivation, because some competition was created, but the channel members were not, on the other hand, forced to pull down their margins. At Stonesoft, the different channel types, distributors and resellers, were in principle motivated by the same channel program. In practice, however, differences were found in a way the different daily channel management activities were directed towards different kinds of partners. The use of a hybrid channel structure, that is, promotion and end customer sales work functions are shared between the parties, was seen to affect the motivation of channel partners positively. By being active in creating end customer demand and sales leads, but not selling to the end customers directly, the company can show its commitment to the channel and avoid channel conflict.

The product of the case company seemed to also influence its motivation practices. The product life cycles, the service requirements of the product, as well the complexity of the product had all some impact on the motivation management in the company.

Channel program is the main motivational tool used at Stonesoft. The program attempts to offer the partners attractive benefits, but is also impose some requirements for the partners. The benefits the partners receive from the channel program include, for example, co-operative marketing funding, sales leads and free technical and sales training. The requirements, on the other hand, include that the channel partners should be committed, provide support for their customers, and have a certain amount of trained personnel to handle the sales of Stonesoft's products.

In principle, the channel program seems to take well into account the needs of the channel partners in terms of adequate profits, sufficient support, cooperative relationship, attractive product and easy distribution. The program can, thus, be expected to provide the partners with some partnership advantage.

The channel program implementation and the actual channel management work is done locally, which enables the local subsidiaries to adapt the program to their own needs. Therefore, the implementation of the program can be very different in different parts of the world. The factors that were mentioned to influence the program implementation included the culture of the partner's country, different language requirements, the different channel structures and the differing roles of channel



partners, the competitive situations at markets, the differing legislations, and the different economic conditions of partner countries.

Next, the perspectives of the channel partners of Stonesoft are considered more carefully.

### **4.3 Channel Partner Survey**

It was concluded in the earlier sections that the current channel motivation practices of the case company, thus, the channel program and the benefits offered, seem to fit quite well what was expected based on the preliminary framework of partner motivation. An interesting question is, however, that how do the channel partners of Stonesoft perceive the motivation practices and the channel program provided. As for example Rosenbloom (1999) and Pelton et al. (2002) argue, before companies are able to design motivational programs for their distributors and resellers, they need to first find out the needs and the problems of the channel partners to be able to satisfy them effectively.

Therefore, a survey among some of the channel partners of the case company was conducted to find out what are the aspects they find the most important when deciding how much effort to put on a certain supplier's products and services. By finding out the channel partner's views and opinions about the relevant and important aspects of channel programs for their operations, the supplier can focus to serve the needs of the partners the best possible way. This can, in turn, help to improve the supplier's position in the tough competition from the channel companies' resources to sell and promote the products and services of different software vendors.

The partner survey dealt with two different issues: firstly, the important aspects in the beginning of the relationship; namely during the phase, when the channel partners are selecting their software suppliers, and secondly, the important aspects in the later phases of the relationship, when the partners are deciding about continuing the channel relationship with a particular supplier. The idea behind the division is that by separating the relationship phases, the case company is able to identify the issues that matter the most in these different stages of the channel partnership.

The next section introduces the channel partner survey as well as the participating partners in more detail.



#### *4.3.1 Conducting the Partner Survey*

Stonesoft has channel partners in all major continents of the world. The partners selected for the survey come from different parts of Europe and Asia. The reason why the company's American partners are excluded in the study results from the fact that the company is heavily restructuring its own organization, as well as the channel structure in the Americas at the moment. The partner landscape was thought to be very uncertain at the time of the survey and, therefore, it was considered by the case company representatives a better solution to leave the partners from the US, Canada and South America out of the study. Additionally, the case company is rather heavily focused on the European markets, as EMEA's (Europe, Middle East and Africa) share of the total sales accounts for over 70%.

The local sales and marketing people of Stonesoft were first asked to provide the contact information of the potential partners to take part in the study. Some wanted to include only their closest partners, whereas others preferred to include partners from a broader scale. Therefore, the partners taking part in the survey are not divided evenly between different countries, but some countries are clearly more widely represented in the survey than others. This is also due to the fact that some countries are clearly bigger markets for the company and in these countries there are also more channel partners distributing and reselling the company's products.

The contact persons of the partner companies were also selected by the case company's local people and in each case the contact persons were somehow familiar with the channel program of the case company. In case of smaller partners, the contact person was often a managing director or a person in some other rather high position, for example a sales or marketing director. In bigger partner companies, the contact persons were often in lower positions, for example channel managers or other managers assigned to certain software suppliers.

The channel members participating to the study are independent value added resellers and distributors of the case company, who sell the products and services of multiple software suppliers. "Value added" means, thus, that the resellers add value to the products of the supplier by offering maintenance and support services to the end customers.



The partners selected were sent a channel partner survey by e-mail. The survey was divided into two parts. Part A included first of all a set of closed questions, in which the partners were to determine the importance of certain factors for their decision to select a software supplier whose products and services they wish to market. The factors included in this question were identified partly based on the theoretical framework, and on discussions with the case company's marketing people. The supplier selection phase was also covered by two open questions, in which the partners named the most important factors for their decision to choose a software supplier and the most important factors affecting their decision to market Stonesoft's products and services.

Part B, in turn, included firstly a set of closed questions in which the partners were to determine the importance of certain factors for their decision to continue and maintain a channel relationship with a particular software supplier. These factors were also identified partly based on the theoretical framework and, on the other hand, the opinions of the case company's representatives. Open questions were also included, in which the partners were asked about the most important factors when they decide to continue a relationship with a particular supplier, what is their opinion about partner programs and what makes a good partner program in general. The partners were also asked to describe their relationship with Stonesoft, as well as its products and distribution practices. They were also asked about their preferences in terms of the content of the partner event organized by Stonesoft. Finally, the partners could give any additional comments they had in mind. (See Appendix C)

As mentioned, the partner surveys were sent to the contact persons of the participating partners by email. The partners were given two alternatives for returning the survey: they could return it in written form by email or by fax, or give their comments and feedback in a telephone interview. The reason for giving the partners these alternatives included, first of all, that some of the partners (particularly in Southern Europe) were not comfortable with speaking English on telephone. Therefore, they were given the opportunity to return the survey by e-mail or by fax. Additionally, some of the partner company representatives were so busy that they preferred writing the answers to the form themselves and not spending a half an hour on the phone. On the other hand, some partners preferred giving their answers via a telephone interview, which gave an opportunity to ask more questions and talk in a more informal manner. Majority of the



partners chose to email or fax the survey back, but six partners were interviewed via telephone.

The surveys were sent by email to about 94 partners, from which 46 surveys were received back. This results in a response rate of almost 49%. The European partners formed the majority of the respondents, since only 4 partner surveys were received from the Asian partners. Because the amount of partners is rather small, statistical analysis of the surveys is not sensible. Therefore, the surveys are analyzed qualitatively based on the open questions asked. A few graphs are, however, used for illustrations.

The replies of the partners taking part to the survey are analyzed firstly based on their home countries. Additionally, the partners selected to take part in the survey have been in cooperation with the case company differing time periods. Some partners have just started to distribute or resell the case company's products, whereas others have been in cooperation with the case company for many years. By comparing the answers of new and old partners, it can be seen whether the relationship endurance has any effect on the factors, which the partners consider important when selecting and maintaining channel partnerships with particular software suppliers. The partners having been Stonesoft's channel partners for less than a year are considered in this study as new partners, whereas companies, whose channel relationship has lasted more than a year, are considered old partners. The replies of the partners are also analyzed based on their channel roles either as distributors or resellers.

The division of channel partners based on their countries, as well as the division between old, new, distributor and reseller partners is, on one hand, to make it easier to analyze the results of the survey, but on the other hand, to find out whether the viewpoints of different types of channel partners differ from each other. It can be assumed based on earlier literature that different channel partners have different needs and priorities and that they appreciate differently the motivational efforts used by the suppliers.

#### *4.3.2 Results*

The results of the survey are presented in the following way: Firstly, the opinions of all the partners taking part in the survey are discussed. Secondly, the aim is to identify any possible differences between the replies of different parties, based on different



cultures, the length of their relationship with Stonesoft and their channel roles, either as distributors or value added resellers.

### **Supplier Selection**

According to all the replies of the participating partners, the clearly most important factor affecting the decision to select a certain software supplier seems to be the product offering of the supplier. The features and functions of the product, the technology, the innovativeness and the competitiveness are, thus, very important for channel partners. The products have to also meet the needs of the partners and the customers, be demanded by the end customers, and offer something different from the competing products.

Closely related to the quality of the product offering is also the quality of the services the supplier provides. Several partners emphasized the quality of technical support as being very important for their decision to choose a particular supplier. The supplier has to, thus, be capable of providing high quality technical and presales support to its partners.

The factors related to the relationship between the supplier and the partners were considered very important too, because particularly the supplier's commitment to the partnership and the trustworthiness of the supplier were mentioned many times by the partners. Other relationship related statements included that the relationship should be solid, high quality partnership characterized by collaboration between the parties. One partner highlighted the importance of "human chemistry" in the relationship.

The channel partners seem to also consider communication aspects quite important. One partner, for example, stressed the fact that the supplier should always listen to the needs of the partners. Product changes should also be announced early enough and first to distributors. Generally, information about the products and other business related matters should be made available on a regular basis.

The pricing of the products and the margins earned were also mentioned by almost all the partners. The pricing should give the partners the opportunity to make proper profits and it should also be competitive and flexible.

Besides technical support, the participating partners brought up also other support forms they consider important. Some of the support methods mentioned included



assistance in winning deals, sales leads and free training, particularly technical training, free versions of products and support, and marketing assistance.

Distribution policies and practices were considered quite important too. Some of the comments included that sales should always be made through the indirect channel, own value added by the partners should be made possible and pan-European projects should also be feasible. In general, it was also brought up that the distribution practices should be working well.

Other factors that were mentioned by a few partners included the consideration for the local culture, the strength of the supplier's brand and the reputation of the supplier.

At this point, it could be useful to take a look at the figure that is composed of the replies of all the partners to the closed question concerning the important factors in supplier selection. The partners were, thus, asked to indicate the importance of certain factors for their decision to select a particular software supplier. The scale of alternatives ranged from 1 to 4, 1 referring to "not important", 2 "slightly important", 3 "quite important", and 4 indicating "very important". The different factors included are partially based to the theoretical framework and, on the other hand, some factors were added from the request of the case company. The factors included were the following:

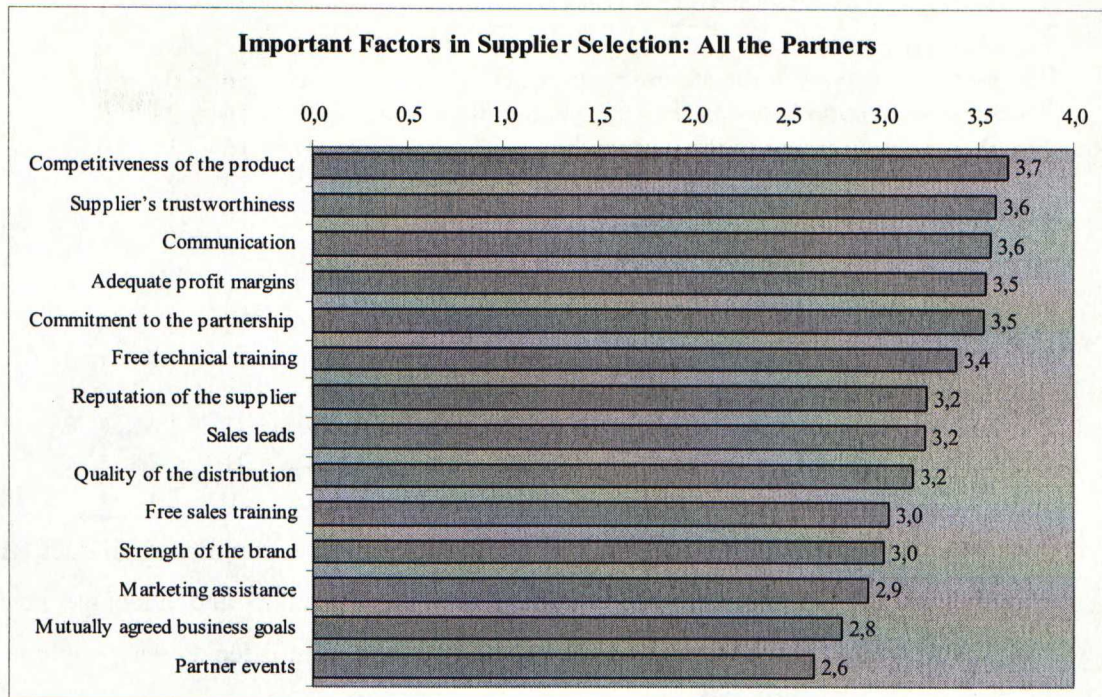
*Table 2: Factors Affecting the Supplier Selection.*

The competitiveness of the supplier's product
The strength of the supplier's brand
The quality of the supplier's distribution practices
Adequate profit margins
Marketing assistance
Free sales training
Free technical training
Sales leads provided by the supplier
Supplier's commitment to the partnership
Supplier's trustworthiness
The communication between the supplier and the partner
Partner events
Mutually agreed business goals
Reputation of the supplier
Other, what?

It should be noted, that since the amount of participating partners to the survey is small, the results are not statistically relevant. However, the figure can still be helpful in illustrating the opinions of the channel partners. When taken the replies of all the partners, the following figure can, thus, be pictured:



Figure 9: Important Factors in Supplier Selection



The figure, thus, supports the findings made earlier; that is the product offering, relationship related factors, communication, possibility for making adequate profits and support from the supplier are very important for the partner when they are choosing the supplier. On the other hand, the figure identifies also some less important factors, such as partner events and mutually agreed business goals. Naturally, these results must be treated as very preliminary, due to the small number of survey participants.

The answers to the closed questions can also be analyzed by looking at the frequencies of the partner's answers concerning supplier selection. The frequency table shows the issues that have received the most mentionings in the closed questions as being very important, which is indicated by number 4.



*Table 3: The Frequencies of Different Answers in Supplier Selection*

	4	3	2	1
Supplier's trustworthiness	32	9	5	0
The competitiveness of the supplier's product	30	16	0	0
The communication between the supplier and the partner	28	16	2	0
Supplier's commitment to the partnership	27	16	3	0
Adequate profit margins	26	17	2	0
Free technical training	22	19	3	1
Sales leads provided by the supplier	20	19	4	3
The quality of the supplier's distribution practices	17	21	6	2
Reputation of the supplier	16	23	6	0
Free sales training	15	18	12	1
The strength of the supplier's brand	9	28	9	0
Marketing assistance	9	25	11	1
Mutually agreed business goals	8	21	16	1
Partner events	5	20	20	1

The supplier's trustworthiness, the competitiveness of the supplier's product, the communication, the supplier's commitment to the partnership and adequate profit margins were among the issues that were mentioned the most often as very important. Partner events, mutually agreed business goals and marketing assistance were, in turn, clearly less important factors. On the other hand, sales leads, the quality of the distribution practices and free sales training were among the factors that more strongly divided the opinions of the partners, meaning that some partners considered them very important, while others ranked them not as important.

When considering the differences between the replies of different partners in more detail, three influencing factors are used: the geographical region of the partner's country, the length of the relationship between the supplier and the partner and the different roles of channel partners.

Firstly, it was noticed that not so many differences occur in the answers of partners from different countries. The partners from all over the world, seemed to, thus, find about the same aspects important. Aspects related to products and technical support, profits, relationship, communication and other support, such as training and sales leads, were mentioned important by almost all the partners, and only some small, insignificant differences were found. This can, however, be related to the fact that the clear majority of the partners taking part to the survey came from Western Europe, where the culture and other environmental factors can be assumed to be to a large extent similar.



Besides the division based on geographical locations, the participating partners were also divided into new partners, referring to partnerships that have lasted less than a year, and old partners, referring to partnerships having endured longer than a year. The information about the partnership duration with the case company was not available for all the partners and, therefore, not all the participating partners are included in this part, which might affect the results of this section to some extent.

It was, however, noticed, that no significant differences really exist between new and old partners. When considering the replies of the partners that have been cooperating with Stonesoft less than a year, the most important factors when selecting a supplier included the product related factors, the support from the supplier, particularly technical support and training, the relationship related aspects such as committed and trusting partnership, and profit margins. The older partners found to a great extent the same aspects the most important. Perhaps a minor difference was found from the fact that aspects related to communication seem slightly more important to older partners, whereas new partners seem to put more weight on different support forms, such as sales leads.

When, on the other hand, the partners are differentiated based on their roles in the channel, that is whether the partners are distributors or resellers, some differences can be recognized. The distributors, as well as resellers, highlighted most of all the importance of the product offering, the profits that are received and the relationship related issues, such as commitment and trust. One distributor brought up also that there should be no conflicts between the different vendors, so that also the different vendors are able to cooperate.

When the replies of distributors are compared to the replies of resellers, it can be seen that the distributors do not emphasize as much the different support forms the suppliers provide. Resellers, on the other hand, put more weight on technical training, sales leads and assistance in winning deals with the end customers. Otherwise also resellers stress the significance of the product offering, the profits, the relationship and communication when selecting their suppliers.

The partners were also asked about the reasons for selecting Stonesoft as their software supplier. Almost all the partners from different countries emphasized first of all the role of the technically strong products. The product was described as being, for



example, of high quality, innovative, unique, competitive and excellent. The second most often mentioned factor was relationship related aspects; for example the commitment from the supplier and the trustworthiness of the cooperation. Good communication received also several mentions, as well as profit margins, technical support, reputation and the people working at the case company.

### **Continuing the Channel Relationship**

The channel partners were also asked about the important factors in continuing the partnership with a supplier. In fact, many partners mentioned that the reasons for continuing the relationship are to a large extent the same as for selecting a certain supplier. This was explained, for example, by the fact that the partner checks already before signing any contracts that certain aspects of the relationship are in order and if not, there will be no partnership at all. Thus, the factors that are important in the beginning of the relationship remain important also later on.

Taken the replies of all the partners, the most important factors in deciding to continue the channel relationship seem again to be the product related factors. The partners mentioned that the product's position, success and market demand are important. The high quality and competitiveness of the products, as well as services, need to be maintained. Again, it is clearly an advantage if the product of the supplier can be differentiated from those of competitors.

Also the relationship with the supplier in terms of commitment, cooperation and trust remains very important, perhaps even more important than when selecting the supplier in the first place. The partners appreciated trustworthy, committed partnerships between the parties. Some also emphasized the important role of people, particularly the country managers, in the relationship.

Different kinds of support, for example technical support and technical training were seen very essential also in the later phases of the relationship. Sales leads and lead protection were also mentioned. Profit margins were still considered important, even though perhaps not to the same extent as in the earlier phases of the relationship.

Communication aspects received a great deal of attention as well. Partners stated that information and ideas should be shared adequately. The contact with the supplier and sufficient follow-up were also mentioned important. Many partners pointed out the



functioning and the design of distribution policies too. The brand of the supplier, as well as the supplier's reputation, were clearly less important than in the supplier selection.

The replies of the partners to the closed question about continuing the relationship can also be presented in a figure. The scale was the same as in the first part, thus ranging from 1 (not important) to 4 (very important), and the following factors were included:

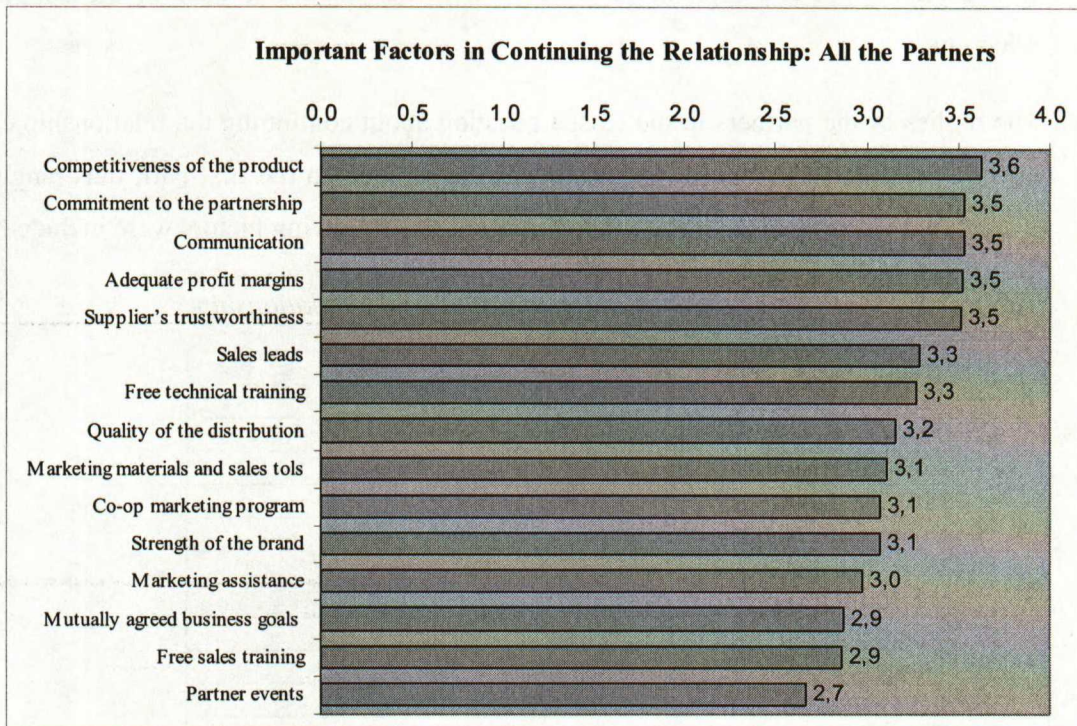
*Table 4: Factors Affecting the Decision to Continue the Relationship*

The competitiveness of the supplier's product
The strength of the supplier's brand
The quality of the supplier's distribution practices
Adequate profit margins
Marketing assistance
Co-op marketing program
Free sales training
Free technical training
Sales leads provided by the supplier
Supplier's commitment to the partnership
Supplier's trustworthiness
The communication between the supplier and the partner
Partner events
Access to marketing materials and sales tools
Mutually agreed business goals
Other, what?

The factors were rated as follows:



Figure 10: Important Factors in Continuing the Relationship



It can be seen from the figure that the important factors in continuing the relationship seem to really include the product factors, the relationship between the parties, communication, adequate profits as well as different support forms. The less important aspects among the participating partners seem to be partner events, free sales training and mutually agreed business goals. Both the most important, as well as the less important issues, are to a large extent the same in the later phases of the relationship as in the supplier selection phase. Again, these results should be examined very cautiously since the number of participants to the survey was so small.

When it comes to continuing the relationship, the following frequency table can be developed:



*Table 5: The Frequencies of Different Answers in Continuing the Relationship*

	4	3	2	1
The competitiveness of the supplier's product	28	17	0	0
The communication between the supplier and the partner	28	13	5	0
Adequate profit margins	27	14	2	1
Supplier's trustworthiness	27	14	4	0
Supplier's commitment to the partnership	25	19	1	0
Free technical training	20	19	4	2
Sales leads provided by the supplier	20	20	3	2
The quality of the supplier's distribution practices	18	17	7	2
Co-op marketing program	15	18	10	1
Access to marketing materials and sales tools	12	26	7	0
The strength of the supplier's brand	11	27	6	1
Free sales training	11	19	11	3
Marketing assistance	10	24	9	1
Mutually agreed business goals	10	19	14	1
Partner events	6	20	17	2

In the later phases of the relationship, the factors receiving the most "very important" – ratings are the competitiveness of the supplier's product and the communication between the partners. The next most often mentioned are adequate profit margins, the supplier's trustworthiness and the commitment. These are the same factors as in the supplier selection, but in a somewhat different order. The less important factors, as well as the factors that have divided the opinions of the partners have also remained almost the same. All in all, it seems that different support forms are the aspects that most strongly divide the opinions of the channel partners.

When the differences of opinions between different types of partners in continuing the relationship are analyzed more closely, the conclusions are very similar to the ones in the supplier selection phase.

Thus, there seem to be no significant differences between the partners from different countries. The same issues, that is, the product, the relationship, the communication, the support, the profit margins and the distribution practices of the supplier are considered the most important by nearly all the partners. Perhaps the only small difference included that a partner from Asia paid attention to the importance of taking the local conditions into account. The reason for insignificant differences is most likely the same as before, that is, the small amount of participating partners outside Europe.

When comparing the replies of new and old partners, again, no significant differences are found. The new partners find the product related factors, that is, the product



quality, sales potential and the competitiveness, as well as the relationship factors, communication, different support forms and adequate profit margins the most important. The older partners are on the same lines. The only small difference was found in the replies to the closed question, in which the older partners appreciated the co-op marketing program much higher than newer partners.

On the other hand, when the replies of channel partners are analyzed based on their roles as distributors or resellers, it can be seen that distributors pay more attention to the distribution policies of suppliers. The distributors emphasize more often than resellers that distribution should always be indirect, that a two-tier model should be used, that the selection of distributors should be exclusive or selective and that attention should in general be paid to indirect channel policies.

### **Important Aspects in Channel Programs**

Besides important issues in supplier selection and continuing the relationship, the partners were also asked about the importance of channel programs.

In general, it can be said that channel programs were considered to be quite important for the partners and having a big influence on the relationship between the supplier and the partner. The most important issue in channel programs seems to be effective communication. Information should flow rather freely and the partners should always have the latest information concerning, for example, product development and new releases.

Mutual commitment and trust seemed to also be important. It was mentioned many times that both of the parties should take an active approach to the partnership and not just assume that orders will come. The supplier should for example visit the partner company from time to time. Marketing done by the supplier was mentioned too as being important in creating awareness for the products in the market.

The role of training was also seen important, as well as marketing assistance, in the form of co-operative marketing funds, for example. One partner stated that: "100% support is expected for making for 100% commitment to the channel program". Additionally, adequate profit margins were considered as a prerequisite for the partner's commitment and investment to the channel program.



Some partners argued that the program should be simple, strict, well defined and easy to understand but, then again, others argued that flexibility is needed. One partner stated that the channel partners of the supplier should be able to differentiate themselves from the other partners, thus different partner levels are needed in the program. Quite a few partners mentioned too that the investment required to the partner program is often quite substantial and there is always a question of money involved in program decisions. For example one partner argued that the supplier should not require the partner to take part in trainings, which are not free of charge

#### *4.3.3 Summary*

The surveys and interviews conducted among the channel partners of Stonesoft revealed interesting information about the issues that the partners perceive the most important when selecting suppliers and continuing the channel relationship. When examining the results, one must, however, all the time keep in mind that due to the small number of partners participating, the results are only preliminary.

Firstly, it seems that the factors mentioned most often in the supplier selection phase are to a large extent the same as when continuing the relationship with the supplier.

The important aspects to the partners include, first of all, issues related to the product offering of the supplier. The partners agree to a large extent that the supplier's product offering should be of high quality, competitive related to other products, demanded by the end customers, innovative, technologically advanced and sellable. The quality of the services, particularly technical support, has to also be high.

Relationship related aspects, such as commitment and the trustworthiness of the supplier, high quality partnership and collaboration, were also considered very important by the partners.

The partners also mentioned several times issues related to the communication between the parties. It was considered important that the supplier listens to its channel partners and provides information about old and new products as well as about any upcoming changes.

The possibility to make adequate profit margins was also mentioned by several channel partners as being important. The pricing has to be competitive, but flexible. Different support forms, particularly technical support and training, as well as sales



leads and support in winning customer leads, were also considered important by many channel partners.

The role of distribution practices was also among the most often mentioned aspects. Firstly, the fact that distribution practices are working well was considered important. Secondly, the fact how the distribution was organized seemed to play a role to the partners as well. Many partner companies, particularly distributors, emphasized that marketing channels should always be used, no direct sales should be allowed and a two-tier structure should be applied. Some partners also pointed out their preference for exclusive or selective channel structures.

Overall, it can be argued that the product offering, the quality of the relationship, communication, as well as adequate profit margins, supplier support and appropriate distribution practices play the biggest role in the channel relations of Stonesoft.

There are, however, certain aspects whose importance is perceived differently by different channel partners. Even if the above mentioned issues were clearly on the top of almost all the partners' lists, the partners seemed to, however, find certain aspects differently important, particularly when it comes to the support forms offered. For example, sales leads provided by the supplier were considered much more important by some partners than by others. Also, free sales training and the role of the brand seemed to divide the opinions of the partners.

When examining the differences between the partners from different countries, it can be stated that no significant differences were found. All the participating partners had almost the same factors at the top of their lists in both the selection and continuing the partnership phases. The factors that differed in their importance between the partners from different countries the most were sales leads provided by the supplier, free sales training, distribution practices and the strength of the brand. Sales leads were, for example, mentioned more often by Western and Southern European partners, whereas it was clearly less important for the Asian, Eastern European and Northern European partners. Co-op marketing program was also more appreciated by the Asian and Eastern European partners than by partners from other regions. Thus, the major differences between the partners from different countries seem to concern the different support forms offered by the supplier but, otherwise, the most important issues seem to be a large extent the same. It has to, however, be pointed out again, that the amount of



partner companies taking part in the survey was small, particularly from outside Europe.

When the replies of the old and new partners are compared, only some small, but rather irrelevant differences were found.

The deviation between distributors and resellers, on the other hand, seemed to result in somewhat clearer differences. The distributors, for instance, do not emphasize as much the different support forms that suppliers are able to provide. Resellers, in turn, put much more weight on technical training, sales leads and assistance in winning deals with the end customers, for example. The distributors seem to also pay more attention to the distribution policies of suppliers as they emphasize more often that indirect channels; preferably a two-tier model, should always be used, and the channel structure should be exclusive or selective.



## **5 DISCUSSION AND SYNTHESIS**

The empirical analysis provided information on motivation from the perspectives of Stonesoft, its channel partners, as well as the influence of the different marketing environment factors. This chapter discusses the empirical findings of the study in relation to the theoretical framework developed earlier.

The theoretical framework intended to identify the critical issues that need to be taken into account when motivating international channel partners of software companies. The framework consisted of three interrelated perspectives: (1) The channel program aiming at fulfilling the needs of the channel partners by providing partnership advantages and, on the other hand, fulfilling the goals of the supplier company, (2) the influence of marketing environment factors, such as culture, market characteristics and other local conditions, and (3) influence of the factors related to the supplier company, such as the characteristics of the industry, the company, and the product of the supplier.

### **5.1 Empirical Findings vs. the Theoretical Framework**

#### **5.1.1 *Supplier's Perspective***

When analyzing the empirical findings from the supplier's point of view, it was stated at first that the industry, in which the company operates has some influence on the motivation of channel partners. The special characteristics of the software industry, such as fierce and global competition and high level of innovation, resulted in increasing importance of channel partner motivation in the sector. Indirect marketing channels are also in a critical role because of the global nature of the industry, as well as the high service requirements of the products fulfilled by the channel, which, consequently, makes effective motivation even more essential.

Besides industry related factors, also issues related to the company itself were found to affect the motivation process. Stonesoft was included in the group of small born global companies, which means that its resources to cover global markets with its own people are restricted. Indirect marketing channel members and their effective motivation is, therefore, important also for Stonesoft. Furthermore, aspects related more directly to the company's channel structure, for instance the use of selective and hybrid channels, was seen to affect the motivation of channel partners.



Characteristics of Stonesoft's products, such as product-life cycles, high servicing needs and the complexity levels were also found to influence the motivation management at the company.

Generally, the characteristics of the industry, the supplier company, as well as the product, seem to all influence the motivation of international channel partners. This finding is well in line with the existing literature and the preliminary theoretical framework. For instance, Shipley et al. (1989) pointed out that the motivation of partners varies with organizations and different circumstances. Hardy & Magrath (1988) supported this view as well by stating that no general support mix can be applied across all markets.

The case study also recognized that Stonesoft's channel program is the main tool the company uses for its channel partners' motivation. When the channel program is analyzed in terms of the previous literature, it can be argued that the case company follows the guidelines provided. Hardy & Magrath (1988), as well as some other authors (Shipley et al. 1989, Rosenbloom 1999) emphasized the role of channel support programs in motivating channel partners. The motivators were roughly divided into financial and non-financial incentives, and according to the literature studied, there should be a balance between the two motivators. Agency theory suggested that the motivation can be based on channel partners' outcomes, or on their behavior. Relationship marketing approach, in turn, emphasized the role of collaborative and mutually beneficial partnerships between the parties as a source of motivation.

Stonesoft's channel program included various kinds of financial and non-financial support forms. The program can also be seen as a mix between output-based and behavior-based contracts. The channel partners are, on one hand, rewarded based on their outcome, that is, the sales of the supplier's products. The more the partner sells, the more benefits, for instance discounts, he will receive. On the other hand, the partners are also entitled to extra benefits based on their behavior, such as having more trained and authorized personnel to sell the supplier's products. Relationship related aspects are also taken into account, as the channel program emphasizes the supplier's commitment towards the channel. The commitment seems to exist also in practice since the supplier does active sales work among the end customers, but does not sell them directly.



On the other hand, the literature reviewed pointed out that the needs of the channel partners are different, which should be taken into account when designing motivation programs. At Stonesoft, the differing needs of the partners are taken into account through the local program implementation, which enables the local subsidiaries to adapt the program to their own needs, in terms of different cultures and languages, for instance. The channel structures in different countries, the use of different kinds of channel member types, competitive situations, different legislations and economic conditions seemed to also have impact on the actual channel management and the motivation work done at the local level.

#### *5.1.2 Channel Partners' Perspective*

Besides the perspective of Stonesoft, the empirical analysis intended also to go deeper into the perspectives of the company's channel partners; thus, partner a survey was conducted. Even though the findings from the partner survey should be discussed very cautiously due the limited number of participants, the preliminary results indicated, however, that a set very important of factors exists, which need to be present in successful channel relationships.

The most important issue for the channel members' decision to select a supplier and also continue the relationship with that particular supplier seemed to be the product offering of the software vendor. The channel partners of Stonesoft strongly argued that the product of the supplier has to be competitive to be able to attract and maintain their interests. Without a competitive and sellable product, the partners would, thus, more actively market and promote the products of competitors.

This finding is significant in the sense that the majority of previous studies on channel relations focus solely on behavioral determinants and the significance of product related factors as a source of motivation are left to less attention (Goodman & Dion, 2001). Exceptions for this can be found in the studies of Goodman and Dion (2001), Anderson et al. (1987) and Simpson et al. (2001), who emphasize strongly product related issues in determining partner commitment, resource allocation decisions and value creation in the channel context.

Relationship related factors, such as commitment and particularly the trustworthiness of the supplier were also regarded by most of the channel partners as very important. The partners seem to, thus, find the quality of the channel relationship with a supplier



significant, and it can be argued that commitment and trust provide really the basis for cooperation in channel relationships and lead, consequently, to stronger and more motivated channel relationships.

Communication between the supplier and the channel partner was also called after in all the phases of the relationship, and by basically all the partners taking part in the study. Communication was defined as the formal and informal sharing of meaningful and timely information between channel partner companies (Anderson & Narus, 1990). The partners seem to require information, for example, about old, new and coming products, customer references and case studies, and about markets and marketing in general. Also listening to the needs of the partners was emphasized. The main issue seems to be that the distributors and resellers have enough information to sell and promote the supplier's products. It is quite self-evident that the selling work becomes much more difficult when the communication between the supplier and the channel partner is not working effectively.

The partners participating in the study also clearly indicated the importance of receiving a fair share of the profits from the sales of the supplier's products. Also, for example Cohen (1998) and Pelton et al. (2002) brought up the issue of money as an important incentive in supplier-distributor relationships. Their view is, therefore, supported in this study.

The importance of adequate profits can also be discussed in the light of the agency theory, since it supports the idea of output-based contract as a method of motivation. The output-based contract bases its incentives solely on the realized outcomes of the partners. Since the profit margins received from the sales of the products play an important role for the partners, the output-based incentives can be considered to be effective in this case. Nevertheless, since many other factors existed that were important for the partners, the output-based coordination method cannot be used as the only source of motivation.

Different kinds of supports provided by the software supplier were also considered as one of the most important issues. The most popular support forms were technical support and technical training. This is most likely related to the fact that software products are often quite complex and, for example, their installation requires extensive technical knowledge. In the later phases of the relationship, also co-op marketing



program and access to marketing materials and sales tools were considered quite important. The importance of the supplier providing sales leads varied more strongly between the different partners, which was also the case with some other support forms. It seems, consequently, that channel companies seem to appreciate different support forms in a different way. The implication of this is that the partners' needs are to some extent different from each other and, therefore, not all the partners can be treated exactly the same way.

In general, the important role of channel programs was highlighted by both the channel partners and the representatives of Stonesoft. Channel programs are, therefore, an essential part of channel management, and they seem to also provide useful tools for motivating channel partners. The program seems to make the relationship building process easier and show the commitment of both parties to the relationship. The partners, as well as Stonesoft, also pointed out that the program should somehow be differentiated from the programs of other suppliers to be more attractive and competitive.

### *5.1.3 Influence of the Marketing Environment*

It was pointed out earlier that from the supplier's perspective, the influence of different environmental factors, for instance differing cultures and legal and economic conditions, has been taken into account in the implementation of the channel program. Different support forms can be used in different countries, and local campaigns and other activities outside the channel program framework can be implemented.

It was also expected based on literature that the needs of the partners would differ from each other. The differing needs were assumed to be explained, for example, by different cultures, the differing lengths of channel relationships and the differing roles of channel partners.

However, in the partner survey, the differences between the partners' opinions were not as big as could have been expected. The partners from different countries mentioned to a large extent the same issues as being important for them. As was mentioned already, the issues that deviated the opinions the most included sales leads provided by the supplier, free sales training, and the strength of the brand. The partner's country had some influence for these differences, as for example partners from Western European countries seemed to appreciate some aspects, such as sales



leads, much higher than the Asian companies. However, as the amount of partners participating from different countries was so uneven, no reliable conclusions can really be drawn. Additionally, the big majority of the partners came from Western European countries, where, for example, the cultural conditions can be assumed to be quite similar. Only a small number of partners participated from the Asian region and, for example, no Japanese or Chinese companies were included. Also, companies from the US and South America did not take part in the survey. It is, thus, possible that the influence of national cultures would have been more significant if more companies from different cultures were included in the study.

The length of the relationship between the supplier and the channel partner had not in this study a significant influence on the partners' perceptions either, even though it was assumed (e.g. by Dwyer et al, 1987; Anderson & Weitz, 1989 and Ganesan 1994) that older partners would, for example, appreciate the relationship related factors, such as commitment and trust, more than younger partners. Nevertheless, the most important factors were to a great extent the same among both old and new partners. This can be due to the fact that the partners participating in the study have all been channel partners with Stonesoft for less than five years. Thus, none of the partnerships have lasted for very long periods of time and, therefore, the partners can be more homogeneous in their views. On the other hand, the nature of software business is such that partnerships are created and dissolved perhaps faster than in some other industries. Due to the fast pace of change in the industry, genuine long-term orientation of channel partners can be more difficult to achieve.

When, on the other hand, the partners were differentiated based their roles as distributors or resellers, some differences were found. Even though both the distributors and resellers highlighted mostly the same issues, the resellers seemed to appreciate some support forms higher than the distributors. Resellers found, for example, technical training, sales leads and assistance in winning deals more important than distributors who, in turn, paid more attention to the distribution policies of suppliers.

All in all, it can be argued that in this partner survey, the culture of the partner's country, or the length of the relationship did not seem to influence the perceptions of channel partners significantly. The channel partner roles, in turn, seem to have more influence on the partners' preferences for certain support forms. Generally, the



opinions of partners about the most important issues in channel relations are in this case very similar to each other. As stated, only small differences were found and they concerned mainly the different support forms offered by the supplier. However, since the partners, for a reason or another, appreciate the different support forms slightly differently, it seems appropriate that the partners are given some flexibility in terms of the channel program offered by the supplier. Hence, Stonesoft's policy to allow their local organizations, which know their partners and their conditions the best, some freedom on how to implement the program, seems reasonable.

## **5.2 The Framework of Channel Partner Motivation in the Software Industry**

Generally, it can be concluded that the findings from the case study and the partner survey support the preliminary theoretical framework and the previous literature quite well. Therefore, the framework of international channel partner motivation does not need to be modified extensively, even though small additions seem appropriate, which are discussed next.

Firstly, the local conditions, for instance different cultures and other local marketing environment factors, are taken into account at Stonesoft in the channel program implementation phase, which is a finding that should be included in the modified framework. The assumption is, thus, that the local organizations are in the best position to consider the differing circumstances of different countries and partners in their daily channel management activities.

Effective communication was also highlighted in the partner survey to the extent that it needs to be included in the framework as a separate need of the channel partners.

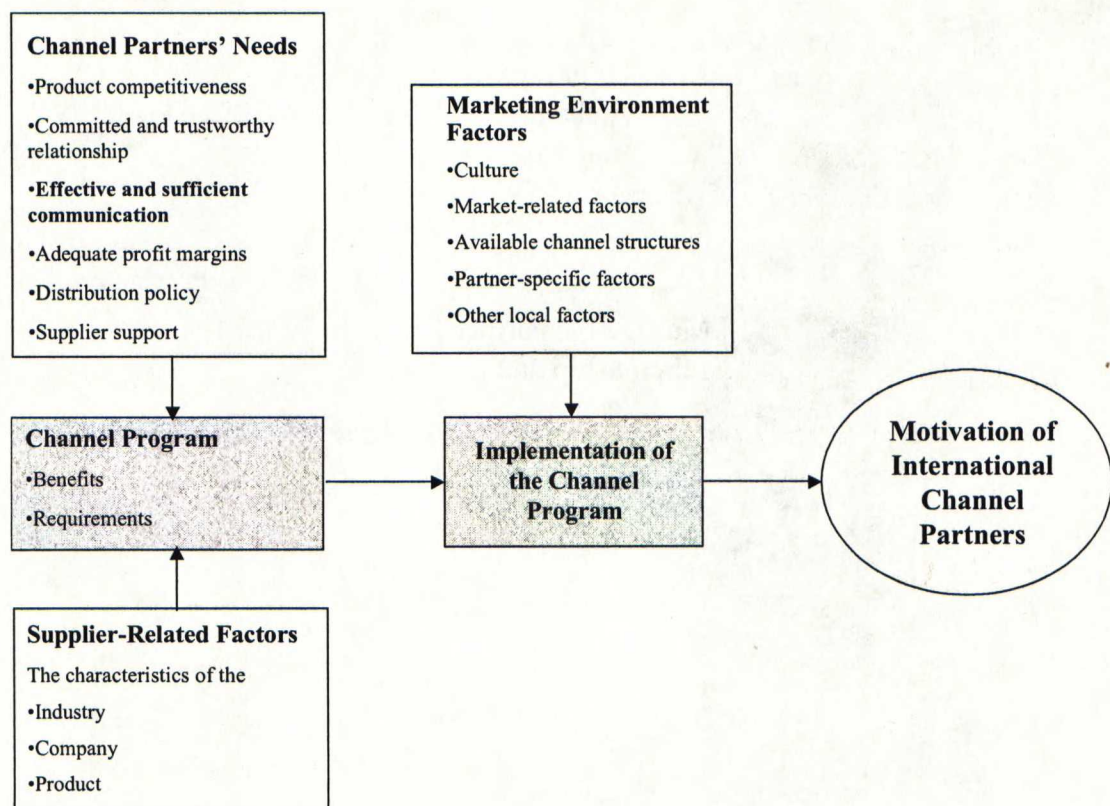
Additionally, the role of the channel program is clarified in the modified model to include more clearly the partnership advantages for the both the channel partner and the supplier. The benefits offered to the partners should fulfill their needs in terms of the product offering, trusting and committed relationship, effective communication, adequate profit margins, distribution policy and sufficient supplier support. The program should, however, also consider the needs and the goals of the supplier, in terms of cost and profit considerations, for instance, which are included in the channel program partially as the requirements set for the partners. The influence of the industry, as well as the characteristics of the supplier company and its product offering should, however, also be considered.



The role of different marketing environment factors was, however, not quite clear in the empirical analysis. On one hand, the partner survey indicated that the culture of the partner's country or other partner-specific factors did not influence the opinions of the partners to a large extent. Only the differing roles of channel partners had a stronger impact on their opinions. On the other hand, in the case analysis, the influence of different environmental factors was more clearly pointed out. It was concluded that local conditions do differ in terms of languages, channel structures, and legal and economic conditions, for instance, which should be taken into account in channel program implementation. Therefore, the influence of marketing environment factors was supported to some extent and it is included in the modified framework as well. However, further research on this aspect is needed.

The modified framework of channel partner motivation based on the empirical analysis is presented in the next figure. The modifications are indicated by color or by bold text.

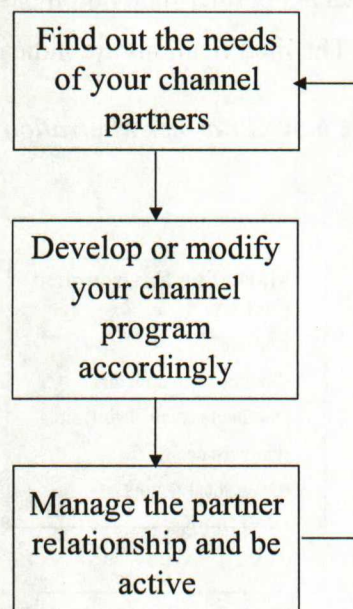
*Figure 11: The Framework of Channel Partner Motivation in the Software Industry*





In addition to the framework of critical issues in creating and maintaining the motivation of channel partners, the motivation can also be seen as a process. As suggested by, for example, Rosenbloom (1999) and Pelton et al. (2002), in order to effectively motivate their channel partners, the suppliers have to first find out the needs of the partners, after which they can provide the partners the support and the benefits required. The evidence from this case also supports the process approach to motivation creation. Many channel partners of the case company brought up their happiness about the fact that the software supplier is making an effort to actually find out their opinions and needs concerning the channel program. The motivation process can be presented in a figure, which is modified from the work of Rosenbloom (1999):

*Figure 12: The Process of Channel Partner Motivation*





## **6 CONCLUSIONS AND SUMMARY**

### **6.1 Summary**

The purpose of the research was to expand our understanding of the critical issues that need to be considered when planning on how to create and maintain the motivation of international channel partners in the software industry. The objectives of the study were divided into the following subobjectives:

- To develop a conceptual theoretical framework based on literature identifying the important issues concerning channel partner motivation from the perspectives of the channel member, the software supplier and the environment
- To analyze the software vendor's standpoint on channel partner motivation through empirical data collected in a case company
- To explore further the critical issues in motivation from the channel partners' point of view through a partner survey conducted among channel partners of the case company
- To identify the influence of different environmental factors on motivation
- To present a modified framework of the critical issues in the motivation of international channel partners in the software industry based on the empirical evidence

Firstly, a preliminary framework of channel partner motivation was created based on marketing channels literature, agency theory and relationship marketing literature. The framework suggested that the main tool for motivation is the channel support program of the software supplier, but the needs of the channel partners, the needs and the goals of the supplier, as well as the requirements set by the environment have to be taken into account. The most important needs of channel partners included profitability, sufficient support, collaborative channel relationship, as well as a satisfying product and functioning physical distribution. The supplier, in turn, had to consider the influence of the industry, as well as the characteristics of its company and product offering on its channel motivation practices. Additionally, the cultural environment, the target market-related factors, available channel structures, other local factors and



some partner-specific factors, such as the length of the relationship between the channel parties, were assumed to affect the need and the tactics available for motivation.

The empirical part of the research consisted of a case analysis of the motivation practices of a Finnish software supplier Stonesoft. Also, a survey was conducted among the selected channel partners of the company to find out the critical issues for their decision to select a software supplier and to maintain the channel relationship. The influence of the marketing environment was analyzed based on the case study and the partner survey.

Founded on the empirical findings, a modified framework of channel partner motivation was, finally, presented, which suggested, that the channel program has a major role in creating and maintaining the motivation of international channel partners. The program has to take into account the needs of the channel partners, as well as the goals of the supplier, which can be done through the benefits and the requirements set in the program. The most essential needs of the channel partners can be characterized in terms of the competitiveness of the supplier's product, committed and trustworthy relationship, effective and sufficient communication between the parties, ability to make proper profits, sufficient support from the supplier and functioning and fair distribution policies. The supplier, in turn, has to consider how the industry area and the characteristics of its company and product offering influence its channel management and the channel support program. The marketing environment factors, such as culture and other local conditions have to also be considered, and this may be done the best at the level of local subsidiaries, which are the most familiar with the different local circumstances.

An additional aspect that was considered important in channel motivation was to find out the needs of the channel partners before designing the channel support programs. When these needs and problems are known, the supplier is better able to design or modify its program to also meet the needs.

## **6.2 Theoretical Contributions**

The theoretical contributions of this study can be discussed under five main aspects:



### **(1) The research gap was narrowed**

Firstly, it was concluded that a research gap exists concerning the motivation of international channel partners in the software industry. This study was able to narrow the gap to some extent by providing empirical evidence about channel relations and channel programs in the software industry particularly from the viewpoint of motivation, which has not received much attention previously.

### **(2) Different theoretical approaches were integrated**

The study at hand was also able to combine several different theoretical approaches to study the many-sided issue of international channel partner motivation. The integration of marketing channels literature, agency theory and relationship marketing aspects can be seen as a contribution itself, because it enabled a more holistic analysis of the topic. It can also be argued that none of the approaches would have been able to describe the different issues related to motivation alone, but the different theories complemented each other.

When the findings of this study are discussed in the light of the agency theory, for instance, one can conclude that the theory does not seem to provide the whole picture of channel relationships in the software industry, which was also expected based on, for example, Eisenhardt (1989a) and Weitz & Jap (1995). The assumption of the theory, according to which the parties are solely motivated by self-interested goals and own benefit, does not seem to hold completely. Both the supplier, as well as the channel partners strongly emphasized the mutual success of the partnership.

In addition, it was assumed based on the agency theory that the behavior-based contract would be the most attractive in the software industry due to, for example, high value added by the channel partners, high complexity of the products and high uncertainty of the environment. It seems, however, that both the output- and behavior-based contracts provide some basis for creating and maintaining the motivation in the channel. On one side, the profit margins from the sales of the supplier's products were considered an important motivator. On the other side, the margins were clearly not enough as such. Other motivators were also needed, for example the quality of the relationship seemed to be very important for the channel partners. The support from the supplier, for example technical training, was also considered vital for the



successful channel relationship. Therefore, also behavior-based incentives were clearly appreciated.

Relationship marketing theory emphasized the creation of collaborative and cooperative partnerships. The fact that relationship related aspects were very important for the channel partners of the case company supports many earlier studies in the area of relationship marketing. For example Morgan & Hunt (1994), Anderson & Weitz (1992), Anderson & Narus (1990) and Mohr & Spekman (1994) emphasized the role of close working relationships characterized by, for example, trust, commitment, communication.

On the other hand, the findings from this study also indicate that the trusting and committed relationship as such is not enough to create and maintain the motivation of channel members towards a particular supplier. No matter how cooperative and collaborative the relationship might be, other aspects of the relationship are needed before the channel partners are satisfied with the supplier. For example, the product offering of the supplier seems to play even a more important role in creating motivation.

### **(3) The empirical findings were supported by the literature**

Generally, it can be argued that the findings of this study are well in line with the previous research on channel motivation. For example Hardy & Magrath (1988), Mallen (1977) and Rosenbloom (1999) have emphasized the role of channel support programs in partner motivation. The needs of the channel partners have been considered important, and the influence of different factors on channel decisions has also been recognized. When it comes to the different motivation methods available, authors seem to agree that both financial, as well as non-financial motivators are needed, which was also one of the findings of this study. Therefore, it can, at first, be concluded that the findings of this study are supported by the previous literature, and secondly, the literature areas reviewed can be seen relevant in explaining the phenomena of interest.

### **(4) The both sides of the channel relationship were considered**

The fact that the study examined the both aspects of the channel relationship, that is, the perspectives of the supplier, as well as the channel partner, can also be seen as an



important theoretical contribution. Particularly the supplier's viewpoint has often been neglected when studying channel relationships and, therefore, the study at hand can be seen to bring some novel insights to channel relations research.

**(5) A broad framework of international channel partner motivation was developed**

Furthermore, the development of a wide-ranging framework of the different aspects of international channel partner motivation can be considered as a contribution. The framework can be used to guide further research related to motivation in marketing channel contexts.

### **6.3 Managerial Implications**

The managerial implications are based on the fact that the study increases the knowledge of the different issues that software suppliers should consider, when deciding about motivation strategies for their international channel partners.

Firstly, it can be stated that the **channel program** of the supplier **plays an important role** in the motivation of international channel partners. The program can provide useful tools for motivation and a framework for the daily channel management activities.

Secondly, **the program has to fulfill the needs of the partners** and, thus, include a competitive of product offering, relationship characterized by trust and commitment, effective communication and information sharing between the parties, adequate profit margins from the sales of the products, fair and functioning distribution policies, as well as a certain combination of support from the supplier.

Perhaps one of the most important aspects is that the suppliers must understand that without **a product offering** perceived as being competitive and sellable, the partnership will not provide the partners what they need. The managers have to carefully listen to their partners and end customers to make sure that their product offering is viewed as competitive and attractive, and also continuously develop the products and services to ensure that they will keep meeting the needs of the partners and customers in the future as well.



Another important issue is to be able to create and maintain a **good working relationship** with channel partners. Mutual commitment and trust are important, which means that both parties have to be involved and active in the channel relationship. The supplier has to earn the trust and the commitment from the partners to increase their motivation, and it seems that the channel distribution policies of the supplier, particularly the decision not sell over the channel, has the biggest role in creating trust and commitment. Power or the supplier's ability to condition the relationship, on the other hand, does not seem important.

There is a dangerous trend in channel relationships that should be discussed in this context as well. Frazier and Antia (1995) have in their article discussed a phenomenon that is opposite to the more general view of partner relationships becoming more relational and collaborative. The authors argue that there is another tendency, according to which many channel relationships are actually becoming weaker and generally worsening. When pursuing bigger market shares and cost reduction, suppliers can take actions, such as using direct sales, which affect negatively the channel relationships. Frazier and Antia (1995) argue that cold and economic facts are pushing many channel members away from cooperative efforts, which themselves can be expensive.

The relevance of their finding to the study at hand is the following: it could be attractive in cost reduction pressures to, for example, cut the number of boundary personnel paying personal visits to intermediaries. This, however, leads to suffering personal relationships, which, in turn, can lead to worsening of the whole channel relationship. The partners in this study made it very clear that they appreciate the personal contacts and the quality of the relationship to the vendor. Therefore, software suppliers should **be careful when planning any actions that could harm their channel relationships**.

In terms of different support forms, some aspects clearly divided the opinions of the channel partners. One idea for handling these differences in the preferences of the partners is **to allow some flexibility in the channel program**. By offering the partners alternatives, the channel program could provide some possibility for individual tailoring and the needs of the partners could be met the best possible way. Naturally, the management of the program would be much more complicated and require more resources from the supplier company.



From Stonesoft's point of view, the survey among its channel partners revealed some important information on whether the current partner program and its benefits are valued by the channel partners. It can be stated, for example, that the role of technical training is perhaps more important than was expected, whereas free sales training was not considered quite as important. The controversial role of sales leads can also raise some thoughts about its significance in the channel program.

Furthermore, it seems very important in the software industry to be able to **differentiate** from the competition. Finding out the needs of the channel partners and offering them a channel program that is consistent with their needs seems as a good way to do this. The channel partner programs of software vendors are currently very much alike, offering the partners to a large extent the same benefits. Therefore, by tailoring the channel program to the needs of its partners, the supplier could be able to differentiate and that way find a competitive advantage in the fight for the channel intermediaries' limited resources.

The fact that the response rate to the partner survey was much higher than the management of the case company thought in the beginning tells much about the need for this kind of partner research. The channel partners were eager to give their feedback concerning the aspects of channel programs and the practices of the case company. This was the case particularly among the newer partners, of which some mentioned that the survey is really a good sign for the relationship as it shows that the supplier is interested in finding out what the channel partners really think. Therefore, it can be recommended that this kind of **research among the channel partners should be made a tradition** and the study should try to reach as many channel partners as possible. The channel partners should be given an opportunity to make their opinions heard and give their feedback on different relationship issues on a regular basis. After all, the channel partners have valuable firsthand information about customers and markets and if the supplier is not listening to their partners, an important resource is wasted.

#### **6.4 Limitations of the Study**

The limitations of the study have already been discussed in the methodology section, but a few additional comments should be made.



A clear limitation is the fact that the study is a single case study, dealing with one case company operating in a single industry area, which means that the findings of the study cannot be directly generalized to other industries. As was discussed in the earlier sections, the software industry has some special characteristics, which make it a slightly different kind of industry compared to some traditional manufacturing industries. For example short life cycles of products, fast rate of new product releases and upgrades, as well as fierce competition in the sector can result in different kinds of motivation needs and tactics than in other industries.

Another important limitation of the study results from the limited number of partners taking part in the channel partner survey. The reliability of the results of the survey would, thus, be improved by increasing the number of participating partners. Also, the partners taking part should be selected more evenly from different parts of the world.

Additionally, it should be considered whether the results of the study could be improved by changing the method by which the channel partners were selected to take part in the survey. The fact that Stonesoft's country managers chose the participating partners might have affected the reliability of the results, because it is possible that the company's sales people would not in the first place recommend companies to take part with whom they do not, for example, have very good relations. To avoid this problem and improve the reliability of the findings, the participating companies should be selected more randomly in the future.

Moreover, personal interviews with the selected channel companies would have been a better way to reveal deeper information from the channel relationships. Telephone interviews allowed only a limited amount of information to be collected from each respondent, which may not be enough to fully explore the complex motivation structures, related to, for example, the presence of commitment and trust. The amount of interviews, instead of written surveys, could have also been bigger to be able to gain a deeper picture from the relationships.

All in all, the amount of companies taking part in the study was rather small, thus the ability to make generalizations can be questioned. Also reliable statistical analysis of the partner surveys was not possible.



## **6.5 Suggestions for Further Research**

Several interesting research topics can be suggested based on this research, of which four are discussed here briefly.

### **Extending the research on motivation strategies to other industries using indirect international channels**

This research attempted to identify the issues that are important in motivating international channel partners in the context of software companies. As was stated, the findings cannot be necessarily generalized directly to other industries. It would, therefore, be interesting to investigate whether different industries vary in their approaches to channel partner motivation; that is, are the channel partners, for example, in the sports retail industry, motivated by the same factors as in the software industry, or how do the characteristics of the industry and the product influence the motivation practices in other fields of business.

### **Focusing the research on a few important influencing factors**

This study aimed at providing a broad view of the different aspects that should be considered when motivating international channel partners. The advantage of this approach is that the many-sided issue of partner motivation could be studied from several different angles, which seemed also relevant in the light of the empirical analysis. However, the drawback is that the different factors cannot be discussed in depth, which would, on the other hand, provide a deeper understanding of their influence on motivation. For instance, the connection between the different channel structures and motivation could be studied in more detail.

### **Studying the influence of culture in more detail**

The different local factors influencing the channel partner motivation raise also interests for further research. It was concluded based on the case study that, for example, the culture of the partner's country should be taken into account when managing channel relationships in different countries. Also, the literature strongly emphasized that cultural differences should be considered when studying channel relationships. The partner survey, however, did not reveal any major differences between the perceptions of partners from different countries. Thus, the existence and influence of cultural differences should be studied in more detail. One solution would



be to include more channel partners from different parts of the world to the partner survey to truly determine the effects of culture on channel motivation.

### **Studying the effects of channel partner company size on motivation**

Moreover, the size of the channel partner company might also influence the effectiveness of certain motivation methods available, but the aspect was not researched in this study. For example Wren & Simpson (1998) and Hardy & Magrath (1988b) have studied the effects of the distributor company size on motivation, and have come to a conclusion the size does matter in terms of different sized companies appreciating different kinds of motivation tactics. The smallest partners are often, for example, less willing to make specialized investments in the relationship and participate in trainings.

Some implications of this were also noticed in this research, as some channel partners gave strong feedback concerning that all the trainings should be free of charge. Thus, financial assistance can be much more valuable motivator among smaller channel partners than among larger partners. The effects of the size of the partner company on motivation should, thus, also be studied in further research.



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## **APPENDIX A**

### **Interview guide for interviews conducted at Stonesoft**

#### **1. Channel structure of Stonesoft**

- a. Channel structures in different countries: Direct/indirect, single/multiple, dual/hybrid
- b. What are the functions of own foreign sales subsidiaries, sales/marketing or both? What is the role of own foreign subsidiaries in channel structures? Are different channel structures used in different countries depending on whether there is a foreign subsidiary in that country?
- c. Role of different channel members, 1<sup>st</sup> tier, 2<sup>nd</sup> tier partners (VARs and distributors)? What kind of functions do they perform, in terms of selling, promotion and technical support, for example?
- d. Channel width, exclusive vs. non-exclusive channel?
- e. Reasons for particular channel structures? E.g. why distributors at all?

#### **2. Channel Program of Stonesoft**

- a. How is it built, based on what information?
- b. What kinds of elements are included?
- c. How does the program differ in different countries? Why does it differ; the role of culture, infrastructure...
- d. How does the program differ for different partner levels: distributor/VAR? Why does it differ? How do the different functions of different partners affect the program? The fact that different partners may sell different products?
- e. How has the channel program been developed in recent years? What have been the reasons for changes in the program structure?
- f. How is the program implemented in different countries? (the same way or differently, what are the differences, the reasons for differences: the role of channel manager, local conditions...)



### **3. Channel program as a channel partner motivator**

- a. Can channel program motivate the partners? Why, how?
- b. Which factors in the program are important for effective motivation?
- c. In general, what kind of tools do you have for motivating your channel partners; what is the role of channel program in overall motivation?

### **4. What factors influenced the building of the channel program**

- a. Software industry (Competition, power relations between the suppliers and distributors/resellers)
- b. Software product (Complexity etc.)
- c. International/global dimension of channel operations, such as culture, local organization, local channel manager, the infrastructure of the country, other factors related to environment? Political, Economical, Socio-cultural, Technological environment (PEST)?
- d. Channel partner types: distributor vs. VARs, the functions they perform
- e. Financial factors, from both the supplier's and partner's sides
- f. Relationships with the partners: trust, commitment, power/dependency relations
- g. ...



## **APPENDIX B**

The following persons provided information concerning the channel motivation practices at Stonesoft:

- Jari Raappana, former Marketing Manager. Acted as the main contact person for the case study
- Jukka, Sieppi, Product Manager. Interviewed on 25.9.2003.
- Ari Multamäki, Channel Manager. Interviewed on 29.10.2003
- Nigel Rix, Regional Director, UK. Provided information concerning channel management in the UK.
- Anna Korhonen, Marketing Manager, Nordic. Provided information concerning channel management in the Nordic region.

The channel partners of Stonesoft participating to the partner study included altogether 46 partners of which 6 partners were interviewed via telephone.

The surveys and interviews were conducted during May 2003.

The partners came from 19 different countries, including Malaysia, Thailand, Philippines, Czech Republic, Poland, Slovenia, Italy, Spain, UK, France, Switzerland, Luxembourg, Belgium, Holland, Germany, Finland, Norway, Iceland and Sweden. The participating partners included both distributors and Value Added Resellers and some of them were new partners, whereas others had been channel partners of Stonesoft for several years.



## STONESOFT CHANNEL PARTNER SURVEY

Thank you in advance for participating in our Channel Partner Survey. At Stonesoft, the focus is on turning our partnerships into mutual success. To serve our partners' needs the best possible way, we are now asking for your views concerning *the supplier selection process* and *the factors that affect the decision to continue a partnership with a supplier*. We would also like to hear your feedback and comments concerning channel partner programs in general. By answering the following questions you can make sure that your views are taken into account when Stonesoft is developing its operations and channel programs further.

**GENERAL INFORMATION**

Company: \_\_\_\_\_  
 Street address: \_\_\_\_\_  
 Country: \_\_\_\_\_  
 Contact person: \_\_\_\_\_

**SUPPLIER SELECTION**

A.) Please indicate the importance of the following factors for your decision to **SELECT** a supplier by circling the number, which best describes your answer.

1 = Not important  
 2 = Slightly important

3 = Quite important  
 4 = Very important

	<u>Not important</u>		<u>Very important</u>	
The competitiveness of the supplier's product	1	2	3	4
The strength of the supplier's brand	1	2	3	4
The quality of the supplier's distribution practices	1	2	3	4
Adequate profit margins	1	2	3	4
Marketing assistance	1	2	3	4
Free sales training	1	2	3	4
Free technical training	1	2	3	4
Sales leads provided by the supplier	1	2	3	4
Supplier's commitment to the partnership	1	2	3	4
Supplier's trustworthiness	1	2	3	4
The communication between the supplier and the partner	1	2	3	4
Partner events	1	2	3	4
Mutually agreed business goals	1	2	3	4
Reputation of the supplier	1	2	3	4
Other, what? _____	1	2	3	4

1. What are in your opinion the most important factors when you are selecting the software supplier, whose products and services you wish to market in the future?
2. If you are a Stonesoft partner, what were the main reasons for selecting Stonesoft?



## CONTINUING THE PARTNERSHIP

**B.) Please indicate the importance of the following factors for your decision to CONTINUE to market and promote a supplier's products and services by circling the number, which best describes your answer.**

1 = Not important  
2 = Slightly important

3 = Quite important  
4 = Very important

	<u>Not important</u>		<u>Very important</u>	
The competitiveness of the supplier's product	1	2	3	4
The strength of the supplier's brand	1	2	3	4
The quality of the supplier's distribution practices	1	2	3	4
Adequate profit margins	1	2	3	4
Marketing assistance	1	2	3	4
Co-op marketing program	1	2	3	4
Free sales training	1	2	3	4
Free technical training	1	2	3	4
Sales leads provided by the supplier	1	2	3	4
Supplier's commitment to the partnership	1	2	3	4
Supplier's trustworthiness	1	2	3	4
The communication between the supplier and the partner	1	2	3	4
Partner events	1	2	3	4
Access to marketing materials and sales tools	1	2	3	4
Mutually agreed business goals	1	2	3	4
Other, what? _____	1	2	3	4

1. What are in your opinion the most important factors for your decision to continue and maintain a channel partnership with a particular supplier?
2. What is your overall opinion about channel partner programs? What makes a good partner program in your opinion?
3. How would you describe your present relationship with Stonesoft?
4. How would you describe Stonesoft's products and distribution practices?
5. Stonesoft is organising a Partner Event in the autumn. What content do you wish from that event? What makes a good partner event?

**Additional comments:**

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Thank you for your participation!